FUTURE TRADING

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS

THIRD SESSION

JANUARY AND FEBRUARY, 1921

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COMMITTEE ON AGRICULTURE.

HOUSE OF REPRESENTATIVES.

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FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Tuesday, January 4, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. Pursuant to the resolution adopted by the committee December 21 determining to hold hearings on future trading legislation, I have called the committee together this morning to consider legislation bearing on future trading.

The Chair lays before the committee the various bills on this subject which have been referred to this committee:

H. R. 14657, by Mr. Tincher.
H. R. 14654, by Mr. Dickinson of Iowa.
H. R. 14656 and 14742, by Mr. Caraway.
H. R. 15122, by Mr. Hoch.
H. R. 14667, by Mr. Steenerson.

It has been suggested that some arrangement as to a division or apportionment of the time be made. Is there any one present who desires to ask for time in favor or against the legislation?

Mr. SILVER. I do not know just what time we will need, Mr. Chairman, but we have three witnesses who would like to be heard.

Mr. DUPRÉ. Mr. Chairman, I did not know until yesterday that this hearing was scheduled for to-day, and when I learned of it, I brought the matter to the attention of certain parties in interest in Louisiana and in my home city of New Orleans, and I am advised they would like an opportunity to be heard some time during the course of the 10 days during which I understand this hearing will last. If it be agreeable to the committee, I think next Monday would be a satisfactory time for this committee to be here. I do not imagine they would consume very much of the time of the committee when they arrive. I would like to fix a late date, if possible, so that they may have an opportunity to come here. It takes about 48 hours to get here from New Orleans.

Mr. MCKINLEY. I move that they be heard, Mr. Chairman.

Mr. HULINGS. I move, Mr. Chairman, that the request of Mr. Dupré be granted and that Monday be fixed as the time, if that is convenient.

The CHAIRMAN. It has been suggested that the time allotted to these hearings be divided between the proponents of the legislation and those opposed to it. If that is agreeable to the committee, without objection such an agreement will be carried out.

Mr. DICKINSON of Iowa. Mr. Chairman, is there any one here appearing in opposition to the bill at the present time?

The CHAIRMAN. Is there anyone present who desires to appear in opposition to the legislation?

Mr. DICKINSON of Iowa. Could not a division of the time be agreed upon until some one arrives here who wants to oppose the bill and take time in opposition to it?

Mr. McLAUGHLIN of Michigan. Is there any one present now who has come here for the purpose of opposing the bill?

Mr. DUPRÉ. I imagine my words could be construed.

Mr. McLAUGHLIN of Michigan. But Mr. Dupré, I suppose, wants to advise his people.

Mr. DUPRÉ. I would like to be able to advise them with reasonable certainty. I can advise the gentlemen that if they will be here by next Monday the committee will hear them or give them such proportion of the time allotted to the opposition to the bill as may be agreed upon.

The CHAIRMAN. How much time will they want.?

Mr. DUPRÉ. I can not forecast that now; I imagine an hour or so.

Mr. McKINLEY. I move that Mr. Dupré's committee be allowed to appear for two hours on next Monday.

Mr. DUPRÉ. Of course, they may not consume the whole time.

The CHAIRMAN. Gentlemen you have heard the motion.

(The motion being duly seconded, prevailed.)

Mr. DUPRÉ. Next Monday at 10 o'clock, I presume.

The CHAIRMAN. From 10 to 12 o'clock.

Mr. DUPRÉ. Thank you very much.

The CHAIRMAN. Mr. Osborne, of California, desires an opportunity to be heard. He will have some parties here from California. I believe representatives of the Pacific Cotton Exchange, who desire to be heard on his bill. Without objection, a hearing will be granted to Mr. Osborne and the representatives from his State next Monday afternoon or Tuesday morning.

We will hear Mr. Silver now.

STATEMENT OF MR. GRAY SILVER, WASHINGTON REPRESENTATIVE OF THE AMERICAN FARM BUREAU FEDERATION, 1411 PENNSYLVANIA AVENUE, WASHINGTON, D. C.

Mr. SILVER. Mr. Chairman and gentlemen of the committee, my name is Gray Silver, I am the Washington representative of the American Farm Bureau Federation.

The members of this federation feel aggrieved at certain practices that obtain upon the grain exchanges, and in endeavoring to bring more light to bear on that subject and to play by note rather by ear, have appointed a committee known as the committee of 17, which are investigating that subject for them. This committee is not yet ready to report, but in the meantime there are members of farm organizations here who are doing work that has to do with and comes in contact with the results of these practices to which I referred, and I would like to have those gentlemen heard. I would ask that you first hear Mr. Middleton, of the Farmers' Elevator Co. of Iowa.

The CHAIRMAN. We will be glad to hear Mr. Middleton.

STATEMENT OF MR. A. L. MIDDLETON, OF EAGLE GROVE, IOWA.

Mr. HUTCHINSON. Mr. Middleton, what is your business?

Mr. MIDDLETON. My business is farming.

Mr. HUTCHINSON. Do you represent any organization?

Mr. MIDDLETON. I will testify here as president of the Eagle Grove Farmers' Elevator Co., Eagle Grove, Iowa. We have been in business there since the year 1906 as an elevator company, a co-operative company. This company is owned by 268 farmers, I believe, at the present time, tributary to this point and have their grain handled by this company. We have had the experience during those years of competing with numerous line companies and also one private company from the beginning of our corporation's existence.

Mr. HULINGS. Mr. Chairman, my I ask some questions.

The CHAIRMAN. Certainly.

Mr. HULINGS. What are the comparative rates between your company and the competing companies? What does it cost you there?

Mr. MIDDLETON. What does it cost us to operate?

Mr. HULINGS. Yes.

Mr. MIDDLETON. Well, I will go back to the beginning and give you a little picture——

Mr. HULINGS (interposing). I mean just at the present time.

Mr. MIDDLETON. At the present time I could not tell you what the rate of our competitor is, because our competitor is a company that gives us no information. All I can judge of them is the price they pay and to give you a picture of the dealings, I would like to go back to the time when we organized and just give you a short statement of what we knew to be their rate at that time and what we charged as our rate following that time.

Mr. MCLAUGHLIN of Michigan. Would it not be advisable for the committee to make his statement first?

The CHAIRMAN. Would you prefer to do that?

Mr. MIDDLETON. In regard to the effect of future trading?

Mr. MCLAUGHLIN of Michigan. My idea was for you to make the statement first that you came here to make.

Mr. MIDDLETON. All right; I will do that.

Mr. MCLAUGHLIN of Michigan. And then the questions can be asked you.

Mr. MIDDLETON. The statement I wish to make regarding the bill and its effect upon us will be this: As farmers we have had experiences since our entrance into the grain trade that have biased us, if I might put it in those terms, against the practice of selling futures or even hedging there at Eagle Grove. We have had companies about us there that have permitted their managers to use the hedge which is considered legitimate by our grain trade. We have had many of them granted that privilege by their board of directors; men that did not understand the hedge; men who in a measure were afraid of it. Their managers are given leeway, many of them too much, and the temptation has been placed before these men after they are given the privilege to hedge the grain they buy and have on hand to speculate. They oftentimes will carry their hedge after they have sold the actual grain that was in their elevator and, of course, as soon as they sell the grain they have on hand, if they hold the hedge they have on the exchange, it becomes a speculation, and it has had a

demoralizing influence on many of our managers that have gone wrong and eventually have broken the company. I could cite you several instances of that kind; one that happened two years ago at Plover, Iowa, a company that was a well-organized company and had done a splendid business. They employed a new manager and gave him the privilege to hedge. This man carried it on and handled it as a speculation. His board did not keep a check on him and the result was that in one year's time after he took charge he had the company absolutely broke, their capital all gone, and they closed up. Case after case of that kind has taken place. I could name you another one at Renwick, Iowa. They had two experiences there along the same line. So we have been careful about the hedge. Our company never hedged until three years ago. Our board had ordered our manager not to hedge. About three years ago we laid the matter before our stockholders as a board and they voted at our annual meeting, instructing us as a board of directors to use the hedge when our board, after consulting with our manager, deemed that conditions warranted it. We have placed our hedging in a way so that we keep in touch with the manager. He is a man whom we have found to be reliable. A few times when the exchanges were opened for hedging we have used the hedge. We used the hedge during the past summer after the exchanges were opened. We were absolutely unable to get cars. We established our company, not with the object of making a large amount of money on the investment we have in our corporation, but for the purpose of enabling our farmers to secure the best possible market for their grain. We have the farm to produce and we have that cooperative marketing organization to put our product on the markets, and the big thing is to put that product on the markets so that it will give us the best return for our labor and our feeds, and when our market is open it is always open as long as we have any bin room in our elevator.

We could not get cars during the summer. Our elevator was filled with corn. Our farmers were anxious to unload. They needed the money and the price was satisfactory and our elevator was filled. We permitted our manager to hedge. He attempted to, for June delivery, but the trouble was that the hedge was short and we could not get cars to deliver. He could not unload, in the meantime. When he attempted to renew his hedge he found that there was a spread between cash and future which was unusually wide. It reached a point where there was a difference of 20 cents between cash and future. Cash was 20 cents higher than future. It placed our manager where there is only one thing to do. He had to buy back his hedge. He bought back the hedge and the result was they dumped the cash corn on him in the exchange and the props were taken from under cash corn and he had that cash corn on his hands and had to unload it. He took his loss of 20 cents a bushel on that corn and still had his corn in the elevator. That was our one experience with the hedge, and I believe it will be our last.

Now, we do not make a practice of hedging regularly. We had that experience. There are other experiences where it runs uniformly, and if the spread does not vary, it is said to be a form of insurance. The general effect on the average manager of handling hedges is to break down his prejudice against speculation and he is led to break over and speculate with the money of the cooperative

members of his corporation, and it is in that sense demoralizing to the cooperative companies.

If there are any questions you wish to ask, I would be glad to give you any information I can along this line. We have had a hard fight in the building up of cooperative organizations. We have had a good many angles to meet in building up our cooperative societies.

Mr. HUTCHINSON. Mr. Middleton, you say your elevator is owned by 260 farmers.

Mr. MIDDLETON. Yes, sir.

Mr. HUTCHINSON. What is the object of your elevator? What do you do—take your grain there and store it?

Mr. MIDDLETON. No, sir; our aim is to keep our market open. Our storage capacity is limited. To give you an illustration of what our company handles, in one year's time, our best year, I think it was 1916—I would have to go back to the records to be sure of that—our company shipped out to terminal markets or to feeders, 978,000 bushels of corn and oats and a little wheat. It included just a little wheat, but mostly corn and oats. We have four different elevators, two in the town and two just a little ways out in the country where there is no village or anything except a siding, for the convenience of the farmers on each end of our territory, and our total capacity is around 72,000 bushels.

Mr. HUTCHINSON. How much?

Mr. MIDDLETON. Our total capacity is about 72,000 bushels. So you can see that we can not store very long when we are handling a volume of business of that size. Our instruction to our manager is to keep that market open and whenever we get cars to keep letting loose our grain. We have no other storage unless we hire storage room in public warehouses, which we very seldom do.

Mr. HUTCHINSON. You spoke about hedging. Probably, some of the committee do not understand what you mean by hedging. Will you not make that plainer? Is not that the only safe way to handle an elevator and grain business?

Mr. MIDDLETON. Is it the only safe way?

Mr. HUTCHINSON. Yes.

Mr. MIDDLETON. No; I would not consider it the only safe way. Of course, the way it is practiced by us, a hedge is when our manager buys, say, 1,000 bushels of corn and puts it in the elevator and has not a way to ship it out.

Mr. HUTCHINSON. He then sells it.

Mr. MIDDLETON. He turns right to the exchange and has his agent sell 1,000 bushels on the exchange against the cash corn he has in the elevator. We realize the fact, that if everything runs even; that is, if the margin between the cash and the future is sufficiently wide and continues so steadily runs he simply takes his margin for handling that grain right there when he places his hedge. When he sells his cash grain, he buys back his hedge and they balance; so he runs on an even keel, as it is termed. However, we have noticed that on many occasions this ideal relationship does not exist and we can not depend on the future market for protection.

Mr. PURNELL. I would like to ask you in that connection whether in that transaction you contemplate the actual delivery of the grain you sell.

Mr. MIDDLETON. That is, the hedged grain?

Mr. PURNELL. Yes.

Mr. MIDDLETON. No; it would not be, in using the hedge, because when you buy grain in the country and it is dumped in your elevator, you have that grain bought at a stipulated price to the farmer and you give him a check for it if he wants his money that day.

Mr. HUTCHINSON. I think what Mr. Purnell means is this: Suppose you sell 1,000 bushels of corn to be delivered in May, can not the buyer make you deliver that corn?

Mr. MIDDLETON. If you do not close your hedge out before that time.

Mr. HUTCHINSON. That is your dealing. The buyer expects you to deliver the corn, does he not?

Mr. MIDDLETON. He probably does in theory but not in practice.

Mr. HUTCHINSON. There is no question about that.

Mr. MIDDLETON. From his end of it, I do not know.

Mr. HUTCHINSON. If you want to gamble with it and sell it out quickly or sell your cash corn before time of delivery, can not you do that?

Mr. MIDDLETON. Yes, sir.

Mr. HUTCHINSON. You are playing perfectly safe all the time and if you want to speculate, you can fill that elevator with 70,000 bushels of corn and hold it without selling it, can you not?

Mr. MIDDLETON. I have already told you of our experience with hedging; we do not consider it as a sure protection, although some other people do.

Mr. HUTCHINSON. That is legitimate, is it not?

Mr. MIDDLETON. Absolutely.

Mr. HUTCHINSON. Then I would like you to tell me how a miller who grinds 250,000 or 300,000 bushels of wheat a day would run his mill if he did not hedge?

Mr. MIDDLETON. Of course, I have not studied the milling business.

Mr. HUTCHINSON. I know that; but we are here to get some remedy.

Mr. MIDDLETON. I do not believe I could enlighten you gentlemen on the miller's end of it.

Mr. HUTCHINSON. I understand; but you are not here to criticize the grain trade without giving us some remedy, are you?

Mr. MIDDLETON. I was simply giving you the angle of the farmers' cooperative elevator.

Mr. HUTCHINSON. What we are after is some remedy to remedy this situation. You can take anything and abuse it, but you can not get along very well without the producers' exchanges and run business, and you know that just as well as I do.

Mr. MIDDLETON. I realize that it appears to be necessary to have exchanges under the existing marketing system.

Mr. MCKINLEY. May I ask whether you are for or against hedging?

Mr. MIDDLETON. Under the present marketing system the hedge, as such, I think it might be unwise to dispense with; but I am not satisfied with all the conditions that surround the present marketing system.

Mr. HUTCHINSON. That is not the fault of the system, but the fault of the people abusing it. You people did that, yourselves; you say that, and you lost 20 cents a bushel.

Mr. MIDDLETON. Yes; and we were helpless.

Mr. HUTCHINSON. You were helpless?

Mr. MIDDLETON. Yes.

Mr. HUTCHINSON. You bought the corn and he delivered it according to his agreement.

Mr. MIDDLETON. Let me get that straight. I do not know whether you gentlemen have the conditions straight or not. We bought this corn and had it in our elevator. Our transportation systems absolutely refused to deliver cars so that we could deliver the corn before our hedge expired. That corn was in our elevator, and we were compelled to hold it in our elevator.

The CHAIRMAN. What date was that?

Mr. MIDDLETON. I can not give you the exact date. I can furnish that later.

The CHAIRMAN. Approximately.

Mr. MIDDLETON. I think it was along in the latter part of July. I can give you the exact dates, because we have them at home, but I can not give them here now.

The CHAIRMAN. Can you give the cash price at that time?

Mr. MIDDLETON. No; I can not.

The CHAIRMAN. Can you give the price offered on future delivery?

Mr. MIDDLETON. I can give you all of that information as soon as I get word from my manager. I would not want to give it approximately. I would rather give it exactly, and I will submit that to you in a further statement.

Mr. MCKINLEY. As I gather it, you are in favor of hedging; is that a fact?

Mr. MIDDLETON. I am in favor of providing a system that will make it unnecessary to hedge, if such can be provided, but I am not in shape to even suggest how that can be done at the present time.

Mr. HUTCHINSON. Mr. Middleton, go on and explain just what you did with this corn that you had in the elevator.

Mr. MIDDLETON. All right.

Mr. HUTCHINSON. What did you do with it after that?

Mr. MIDDLETON. We had the corn in the elevator. We bought it of the farmer, and the farmer was paid for it. Our manager took a hedge and the hedge——

Mr. HUTCHINSON (interposing). In what way? What did he do, sell or buy?

Mr. MIDDLETON. He sold an equal amount to the amount he had in the elevator.

Mr. HUTCHINSON. That is all right. Now go on.

Mr. TINCHER. Wait one minute; since you have gone into this personal transaction, what did he sell? What option?

Mr. MIDDLETON. What option?

Mr. TINCHER. Yes.

Mr. MIDDLETON. You mean on what month?

Mr. TINCHER. He had corn in the elevator; now what did he sell?

Mr. MIDDLETON. He sold corn for future delivery.

Mr. TINCHER. How many months off?

Mr. MIDDLETON. I think it was 30 days, I am not sure.

Mr. TINCHER. There is a whole lot of difference between hedging and selling futures.

Mr. HUTCHINSON. What else did he do?

Mr. MIDDLETON. He had to sell for a little less than he paid for the corn. He had a loss there. At the end of that time the spread

widened between cash and future. He could not renew without a decided loss. He did make one renewal, I believe, but I am not sure as to that; and, when he closed out, his final loss was 27 cents a bushel.

Mr. HUTCHINSON. I understood you to say a while ago that they delivered corn.

Mr. MIDDLETON. No; they had the corn. I stated that they still had the corn in the country elevator. They could not deliver it. We were not able to deliver that corn because of the lack of cars. We could not get cars, and that corn had to lay there, and was held there until we got relief on the car situation. When we got that relief the car was shipped and sold on the cash market.

Mr. HUTCHINSON. And you could not renew your sale?

Mr. MIDDLETON. We could not renew it except at a drop each time.

Mr. JACOWAY. How did you come out of that transaction? Did you make or lose money?

Mr. MIDDLETON. We lost 27 cents a bushel.

Mr. JACOWAY. Then your hedge was not an insurance policy?

Mr. MIDDLETON. It was not. There are a number of companies—there is one company that the secretary of our State organization stated to me—I am just simply giving his statement about it—had lost in the neighborhood of $40,000 on a similar deal, making the same kind of a corn deal.

Mr. PURNELL. Is there any reason why you can not sell your cash grain for future shipment?

Mr. MIDDLETON. There was a reason there, I think.

Mr. MCKINLEY. You did sell it for a future shipment?

Mr. MIDDLETON. Yes; but we could not deliver it because we could not get cars at that time to make delivery.

Mr. TINCHER. Let us get straightened out on this proposition. You have 1,000 bushels of corn in your elevator. Under existing conditions you can keep your corn or can sell the cash corn for immediate delivery or you can sell the cash corn for future delivery, or you can gamble on the future grain market on the board of trade. Now, you took the option of gambling on the future market on the board of trade.

Mr. MIDDLETON. We tried to hedge.

Mr. TINCHER. And selling a future delivery. Now, talking about hedging, you had the option either of selling your corn for what you could get for it then or selling cash corn for future delivery. Is not that considered among real business men who do not want to gamble on the board of trade as the only legitimate hedge?

Mr. MIDDLETON. The trouble is that so often our exchanges have not that open market for future delivery on cash stuff.

Mr. TINCHER. Do you know of a time in the last 25 years when there has not been a market in Chicago so that you could not sell corn for future delivery, actual corn or actual wheat? I am not talking about the board of trade and futures now.

Mr. MIDDLETON. I could not answer that question.

Mr. TINCHER. You know there is all the difference in the world between a board of trade that deals in futures and the grain men who actually handle grain and buy and sell grain.

Mr. MIDDLETON. I realize that.

Mr. TINCHER. I am very much surprised to learn, I will say to you, that any line of elevators operated by farmers are playing the board of trade and dealing in options. I am very favorable to legislation to do away with trading in options, but not for the purpose of protecting line elevators who are gambling. I did not know they had got to doing that. I did not suppose their bankers would let them do it.

Mr. MIDDLETON. Right along that line, I would like to make this statement. I am familiar with the cooperative elevators of Iowa, and I will make this statement, there is not more than from 15 to 20 per cent of the cooperative elevators of Iowa that make a practice of using the hedge.

Mr. TINCHER. What I am afraid of is that you do not distinguish between selling cash grain for future delivery and an option.

Mr. MIDDLETON. I know the difference.

Mr. TINCHER. One is legitimate and the other has always been considered by our bankers and neighbors as rather shaky.

Mr. HUTCHINSON. I would like to ask you another question: What are your laws in Iowa? Does your charter give you the privilege of buying and gambling on boards of trade like that?

Mr. MIDDLETON. I could not give you an answer to that. I know it is practised by some managers, and these same managers may ruin their companies or may not.

Mr. HUTCHINSON. I know that.

Mr. MIDDLETON. And there are no prosecutions.

Mr. HUTCHINSON. You know what your charter is, do you not?

Mr. MIDDLETON. Yes.

Mr. HUTCHINSON. Does it allow that? Have you got the right to go out and buy grain and sell it and sell futures and all such things as that, under your charter, in the State of Iowa?

Mr. MIDDLETON. Our charter does not embody that. In our charter we specifically——

Mr. HUTCHINSON (interposing). You work for the benefit of your cooperative farmer, do you not?

Mr. MIDDLETON. We do.

Mr. HUTCHINSON. Do they know that you go out and do that?

Mr. MIDDLETON. The original charter we had provided that we would not deal in futures. That stood, as I stated formerly, until we changed that by a vote of our stockholders, granting our board of directors the right to use it under restricted conditions; that is, under proper supervision, and they being accountable to the stockholders; if that is the answer you wish.

Mr. HUTCHINSON. In our State, New Jersey, we have certain laws that cooperative societies can organize, and they can do a legitimate business and can only do a legitimate business.

Mr. MIDDLETON. Yes.

Mr. HUTCHINSON. And I supposed that all cooperative societies were doing it in that way.

Mr. MIDDLETON. You know that the cooperative laws vary in the different States. We have a cooperative law in our State.

Mr. HUTCHINSON. That was my object in asking you whether Iowa had a State law allowing you to do that kind of business.

Mr. MIDDLETON. Well, it is practised by some managers and there are no prosecutions.

The CHAIRMAN. Your articles of incorporation authorized the buying and selling of grain?

Mr. MIDDLETON. Yes, sir.

The CHAIRMAN. And does not specify exactly how that shall be done?

Mr. MIDDLETON. That is true.

The CHAIRMAN. There is no violation of the articles of incorporation unless you are specifically prohibited?

Mr. MIDDLETON. When you incorporate you can incorporate a clause that will prohibit trading in futures, and then if you incorporate that, your manager or your board of directors will be held accountable.

The CHAIRMAN. Did your charter contain such a clause?

Mr. MIDDLETON. It did formerly, but, as I stated, our stockholders voted at an annual meeting to grant the board that privilege, and, of course, it was taken up with the State auditor and we were clear on that so far as our law was concerned.

Mr. LEE. What are you doing now? Are you using the hedge?

Mr. MIDDLETON. We are not.

Mr. HUTCHINSON. As I understand, Mr. Middleton, you are not opposed to the hedging power and to the legitimate buying and selling of grain.

Mr. MIDDLETON. Under present conditions; that is, under the present marketing system.

Mr. VOIGT. When you had that loss of 20 cents a bushel, why could you not have sold that grain for 90 days delivery and delivered it in the meantime and saved yourself that loss.

Mr. MIDDLETON. Well, do you realize that that future delivery proposition is not always available? There are times when you can not find a buyer for the actual cash stuff, as long as the exchange is varying the way it was at that time. At that time, as I stated to you, the spread between cash and future was varying. It was going up and down daily, and we could not get buyers for the cash grain without taking an immediate loss.

Mr. VOIGT. When you sell this grain on a hedge, are you not obliged to deliver the actual grain in settlement of that hedge when settling time comes?

Mr. MIDDLETON. If you can; but if your grain is in the country and your elevator is, say, 500 miles from the exchange you have dealt through, and your railroad company absolutely refuses to furnish you cars, how are you going to deliver the cash grain?

Mr. VOIGT. Suppose you sold on 90 days delivery; could you not get cars in that time?

Mr. MIDDLETON. There are men in my neighborhood who started last April trying to sell their corn and deliver it to our farmers' elevator—members of my home company. Those men were unable during that time to get their corn in. A large number of farmers did get their corn in, but there were a large number who were absolutely unable to get their corn in until November, 1920, after the market had gone below the $1 mark. Their corn was shelled and taken to market then.

Mr. VOIGT. Do you mean this, that they could not get railroad transportation, or what?

Mr. MIDDLETON. Our elevator company could not get transportation for grain to ship out of our territory sufficient to handle the supply; only enough to move a few cars of grain a week. The elevators remained full practically the whole summer.

Mr. VOIGT. Do you mean to say that there would be a period of 90 days, a continuous period, when you could not ship a car of grain?

Mr. MIDDLETON. No. We might ship a car, now and then, each week, but we had a volume of grain there of possibly nearly 700,000 or 800,000 bushes to ship out. We would ship out, maybe, two or three cars a week, and then there were periods when we did not ship a car a week. There was one period of 10 days when there was an embargo on and the railroads would not drop a car off to a farmer elevator along the whole system of the railroads that we are located on. Those cars were all taken through to other sections. We were not able to move a car during a period of 10 days. At other times we would get a car now and then, and could load that much of the supply, but that did not amount to anything. Say there would be a farmer in shape to shell his corn, and he would bring in his corn, and it would fill up our space. But there were other farmers all around who wished to unload and they could not do it.

Mr. MCKINLEY. Isn't the only way to prevent gambling in grain simply to have a farmer, when he wants to sell, to come in to you, as agent, and for you to tell him, yes, you bring in your corn, and when I can get a car I will ship it on to the broker, and he will sell it to the man who wants to use it, and then when I get the returns back I will give you the money?

Mr. MIDDLETON. Well, there are farmer elevators that handle it that way.

Mr. MCKINLEY. Isn't that really the only way you can prevent gambling in grain?

Mr. MIDDLETON. Well, in the true sense, perhaps that is true; that it takes that element of chance out of it, if you want to put it that way.

Mr. HUTCHINSON. Are you buying corn now?

Mr. MIDDLETON. Our firm is buying corn, yes.

Mr. HUTCHINSON. What do you pay for it now?

Mr. MIDDLETON. The last I had word from our manager it was in the neighborhood of 48 cents a bushel, I think.

Mr. HUTCHINSON. Forty-eight cents a bushel, do you say?

Mr. MIDDLETON. Yes.

Mr. HUTCHINSON. Do you know what the freight rate is from your elevator to Chicago?

Mr. MIDDLETON. I could not tell you right now.

Mr. HUTCHINSON. You are perfectly safe to buy corn at 48 cents a bushel and sell it in Chicago at 77½ cents for next year, aren't you?

Mr. MIDDLETON. If this corn would grade at that 77½ cents a bushel grade for corn, yes. But you know there is a difference.

Mr. HUTCHINSON. There isn't very much difference in the grade, possibly 2 or 3 cents a bushel now and then. For instance, you are buying corn in Iowa now at 48 cents a bushel. Do you know that the carrying charges and interest and everything else is figured in the option?

Mr. MIDDLETON. Yes.

Mr. HUTCHINSON. In other words, there is about 7 or 8 cents a bushel between cash corn to-day and July corn?

Mr. MIDDLETON. What is that?

Mr. HUTCHINSON. So a man is perfectly safe to buy July corn if he expects to receive corn, even if he is gambling?

Mr. MIDDLETON. There is a heavy percentage of moisture at this time of year, and we will be compelled to hold that corn that we are buying for some time.

Mr. HUTCHINSON. Do you have a drier in your elevator?

Mr. MIDDLETON. We have not.

Mr. HUTCHINSON. Don't you think that would pay?

Mr. MIDDLETON. Our laws are such that 70 pounds for ear corn is a standard busel in Iowa. The corn we are buying to-day is mostly ear corn. We have to put that in a crib until we get at least a carload. There is constant evaporation of moisture, if you have a good drying crib, which we have.

Mr. HUTCHINSON. Do you put it in cribs now?

Mr. MIDDLETON. Yes, sir.

Mr. HUTCHINSON. Around your elevator?

Mr. MIDDLETON. We have a crib that is a scientific drying or ventilating system, or that has that system in it, so as to dry the corn as quickly as possible through natural means.

Mr. HUTCHINSON. You take this corn in from every farmer at a certain price?

Mr. MIDDLETON. Yes, sir.

Mr. HUTCHINSON. Your price is fixed at which you buy the corn, and when you sell it you divide up among the farmers from whom you received it the dividend or whatever it is?

Mr. MIDDLETON. Yes; we have a cooperative system of distributing earnings. We give so much to capital and then so much is given to the individual farmer. We take a good safe margin—and I will be glad to explain that to you if you wish me to do so.

Mr. TINCHER. I do not know of any proposed legislation to affect that.

Mr. HUTCHINSON. Well, I wanted to show the situation, that it was perfectly safe to take an option.

The CHAIRMAN. Mr. Hutchinson, if the future price is 77 cents, and it takes about 30 cents a bushel to handle corn in Iowa now, there isn't very much margin there.

Mr. VOIGT. Freight and everything, do you mean?

The CHAIRMAN. Yes; all charges. It is about 70 cents a bushel to pay everything, adding a fair profit for handling.

Mr. MIDDLETON. I can explain our profit proposition so that you can all understand it, if you wish. We pay our stockholders the legal rate of interest on their stock, on the money that they have invested in our company, and it is 8 per cent in Iowa.

Mr. HUTCHISON. Well, then, it is not a cooperative society but a stock company.

Mr. MIDDLETON. We have a cooperative law in Iowa which provides that we may raise our capital by selling stock. We allow our stock the fixed rate of interest, the legal rate in Iowa, 8 per cent. Then whatever is earned above that goes back to the men that furnish the business to the company.

Mr. McKINLEY. How do you take care of the 20 cents a bushel loss that was referred to by the former witness?

Mr. MIDDLETON. That is charged to profit and loss. We have had that to do a time or two.

Now, Mr. Chairman, if there is anything further that you or the other members of the committee wish to ask I will be glad to do the best I can to answer.

The CHAIRMAN. The committee is grateful to you, Mr. Middleton.

Mr. MIDDLETON. I thank you for the opportunity to be heard.

(There is printed as follows a telegram giving the information requested of Mr. Middleton:)

L. DICKINSON,
House of Representatives, Washington, D. C.

Have been away. Hedge of 20,000 bushels June 1st, at $1.75¼, closed out June 16th at $1.48 and $1.47½.

A. L. MIDDLETON.

Mr. SILVER. Now, Mr. Chairman, we would next like to have heard Mr. C. H. Hyde, of the Farmers' Union of Oklahoma.

The CHAIRMAN. The committee will be glad to hear Mr. Hyde.

STATEMENT OF MR. C. H. HYDE, OF THE FARMERS' UNION OF OKLAHOMA, ALVA, OKLA.

The CHAIRMAN. Mr. Hyde, kindly give your name, state whom you represent, and your residence.

Mr. HYDE. I am a member of the Oklahoma Farmers' Union and the National Wheat Growers' Association.

Mr. Chairman and gentlemen of the committee, the farmers in the southwest are opposed to future trading as a whole. A few grain dealers deal in that way—that is, not dealing in futures but in so-called hedging, but they are very few. A very small percentage, especially of cooperative elevators, or farmer elevators in the Southwest, follow the plan of hedging. We have had at the town that I live in—and I have been connected with the management of the concern for 10 years—a farmers' elevator for upwards of 22 years, and we have never hedged, as they call it, on a bushel of grain that we bought.

Farmers believe that speculative sales do not work for the benefit of producers. They believe that there has been a movement, by concerted action on the part of those that have dealings on the board of trade, to force the market down early after the harvest season, on account of the credit conditions the most of the farmers, growing cereals as well as cotton, having to sell their crops immediately. The credit conditions are such that they must sell immediately. They believe that at times a concerted action is made by speculators who actually want the grain, but by selling a great quantity of grain even the deal may be made among themselves, and yet it has a tendency to force the price down. The farmers have to sell because they do not have the credit to carry their crop over. Speculators get the crop and the price goes up after it has left the hands of the producer. On the other hand, the consumer is not benefited by the

temporary reduction in price, and the speculator has made his money in the increased price that the grain sells for after it has left the producer's hands; and the same is true as to cotton.

We have in Oklahoma cooperative elevators as well as other elevators. The most of our towns have a farmers' elevator. As Mr. Middleton said, our dividend is principally a patronage dividend. It makes no difference to a cooperative elevator whether grain is bought on a 20-cent margin or a 50-cent margin because all the profit will go back to the men who furnish the grain regardless of what they received for it at the time they delivered it. The additional profit, representing the difference between the cost or amount paid to them at the time the grain was taken and the amount that they receive is really just a part of the purchase price, though they do not receive that latter amount until after the close of the year's business.

Hedging may be necessary—not future trading but hedging may be necessary as an insurance under the present system. But it is hoped by our farmers that the marketing system may be so revised that it will be unnecessary to carry this insurance. The rate seems high, and it is believed by our farmers that we ought not to have a marketing system by which it is necessary to carry the insurance.

In speaking for the Oklahoma farmers, I want to say that we have something like 18,000 members of Farmers' Union, and the National Wheat Growers' Association had, at their last meeting, over 100,000 members; and at both the State and national meetings of the Farmers' Union and of the Wheat Growers' Association, they went on record as opposed to future speculative trading. That is the feeling, I think, through the Southwest generally among the farmers.

Mr. TINCHER. Do you know how much wheat Mr. Armour is reputed to have sold last summer at the time they broke the wheat market?

Mr. HYDE. No; I do not. I do not know the amount of trading that is done on any of the exchanges. I am a member of a committee before which the president of the Chicago Board of Trade appeared, and he spoke to us for a couple of hours. We asked him the direct question: How many bushels are actually delivered for sale at the Chicago Board of Trade? His reply was that he could not answer. He expressed a willingness to help us all that he could and to give us all the information he could. I asked him the question direct if he could tell us, for instance, or if he could get for our information, the number of bushels of wheat that were sold futures and cash on the Chicago Board of Trade the preceding day. He said, "I could not do that." I asked him if they did not have a record thereof. He said, "No; it is a matter between the individuals, and there is no record made of those dealings." I asked the question a second time, "Do you mean to say that you do not know the actual number of bushels of wheat futures and cash that are sold on the Board of Trade in Chicago?" And he replied, "We do not."

Mr. HUTCHINSON. When was this?

Mr. HYDE. This was either at a meeting we had on the 5th or 6th of November or else it was at a meeting we had on the 13th of December, last past.

Mr. HUTCHINSON. Do you know that the Government gets a quarter of 1 per cent for every bushel that is sold there on option?

Mr. HYDE. Sir?

Mr. HUTCHINSON. You know that the Government gets a quarter of 1 per cent on all options sold?

Mr. HYDE. I do not.

Mr. HUTCHINSON. Well, it does. How could they do that without a record of sales?

Mr. HYDE. What was your question?

Mr. HUTCHINSON. How could they do any trading on the Board of Trade without that record?

Mr. HYDE. I can not answer the question. Mr. Gates said they had no record to go by, and that they could not have one, and he said that the Federal Trade Commission had been trying to get the record, and that they had been working on it for a couple of years and he presumed they had something, but that the Chicago Board of Trade had no record and there was no way for them to find out about the sales.

Mr. HUTCHINSON. You say your farmers are opposed to future sales. Would you close up the boards of trade?

Mr. HYDE. I said the wheat growers and the farmers of Oklahoma and Kansas by resolution at two annual meetings had gone on record as being against future speculative trading.

Mr. HUTCHINSON. What do you mean by "speculative trading"?

Mr. HYDE. Speculative trading is trading in which the seller does not own the commodity he is selling.

Mr. HUTCHINSON. He has to get it if he sells if he is any kind of reputable man, doesn't he?

Mr. HYDE. Well, that is handled this way——

Mr. HEULINGS (interposing). He can pay the difference, and that is what they do.

Mr. HYDE. He has to get it or lose 10 per cent, the purchase price being so much and 10 per cent of it is put up. But he does not have to get the commodity itself, as I understand.

Mr. HUTCHINSON. He may buy May corn and if he does he has to deliver it.

Mr. HYDE. No; he does not have to do that. He has to deliver the corn to you or else lose 10 per cent of the purchase price, the amount of the option that he has put up. But he does not have to deliver the corn.

Mr. HUTCHINSON. But he does have to deliver the commodity?

Mr. HYDE. No, sir.

Mr. HEULINGS. Aren't you making a mistake between puts and calls and futures?

Mr. HYDE. I think not.

Mr. HUTCHINSON. The man may get out of it, but not if I demand my corn.

Mr. HYDE. I am not a dealer on the Board of Trade. I am connected with farmers' grain associations, but we are not allowed to sell our grain on the Board of Trade.

Mr. HUTCHINSON. You are not allowed to do it?

Mr. HYDE. No, sir. Not on the Chicago Board of Trade. If the cooperative elevators should buy a seat on that Board of Trade they would not allow us on the Board of Trade.

Mr. HUTCHINSON. Not if you bought a seat?

Mr. HYDE. No, sir; not after you bought it.

Mr. MCLAUGHLIN of Michigan. Do you mean that the Board of Trade would not allow a representative of a strictly cooperative commission company on the floor of the Chicago Exchange?

Mr. HYDE. No, sir.

Mr. HUTCHINSON. You are not a cooperative society. You sell stock, the same as any other corporation.

Mr. HYDE. Oh, no; not the same as any other corporation. As between a cooperative corporation and an ordinary corporation there is this distinctive difference, that the cooperative association pays its profits by way of a patronage dividend, based on the amount of business furnished by the individual. Different States have different cooperative laws, but usually the dividend on the stock is limited to the legal rate of interest in each particular State. They consider that the capital stock is simply a loan that the individual member has made to the corporation, so that it will have the machinery, elevators and so on, to do business with. And the cooperative association simply pays the individual the legal rate of interest thereon, but all profit goes to the men who furnish the business.

Mr. HUTCHINSON. Do they all take an equal amount of stock?

Mr. HYDE. Usually it is that way, that they all have an equal amount of stock. But in most States regardless of the amount of stock that you own each individual votes one vote, whether he has $100 or $500 worth of stock. In other words, the member votes and not the stock.

Mr. TINCHER. Assuming that you have a perfect right to carry on your business the way you are doing it in Oklahoma, about which I think there is no doubt that you have——

Mr. HYDE (interposing). We certainly mean to do it in a legal way.

Mr. TINCHER (continuing). Can you explain to this committee the difference between trading in options and selling wheat for future delivery?

Mr. HYDE. Yes.

Mr. TINCHER. Do you understand the difference?

Mr. HYDE. I think I do. At least I will explain it the way I understand it: Selling options is selling a commodity which I do not own. In other words, I do not own the commodity I am attempting to sell. I do not have it in my possession. In selling for future delivery, hedging, and if it is on grain, you may not want to deliver the commodity now, or may not be able to deliver it now——

Mr. HULINGS (interposing). You may not have it yet?

Mr. HYDE. That is not true in the case of hedging. What I have said is selling and hedging. An option is where I do not have the commodity and I am simply making a gamble whether it will go up or down.

Mr. TINCHER. Speaking of the Kansas and Oklahoma farmer, as to whether he is in favor of closing up the grain exchanges and

chambers of commerce, you have never heard any of them advocate anythingof that kind, have you?

Mr. HYDE. No, sir.

Mr. MCKINLEY. I want to see if I have this clear in my mind, in regard to the way you handle matters down there in Oklahoma: You said if a man sells now to the elevator, at a price, then when it comes to a close-up, after that grain has all been sold, that man gets the difference in the way of profit.

Mr. HYDE. Yes, sir. I will illustrate it in this way——

Mr. MCKINLEY (interposing). Let me ask you another question: To make this real simple, suppose there are 10 men in this organization of yours, and that 9 of them come in and sell just 1,000 bushels of wheat each, and then the tenth one comes in and sells 100,000 bushels. Now, as I understand you, the man who sells 100,000 bushels, if there was 9 cents a bushel profit, would get the whole profit on the 100,000 bushels that comes in later on the sale. But who pays the loss if there is a loss?

Mr. HYDE. The loss that has been suffered?

Mr. MCKINLEY. Yes.

Mr. HYDE. It comes in the depreciation. You must borrow on your investment, or on your elevator, from the cash you have with which you have to do business. You have to have that in order to do business.

Mr. MCKINLEY. Do those other nine men help on that?

Mr. HYDE. Yes, sir.

Mr. MCKINLEY. But they do not get any of the profit?

Mr. HYDE. Yes; they do.

Mr. MCKINLEY. You said it all went to those men. That is the reason I thought your testimony given before this committee was not properly presented.

Mr. HYDE. We pay the legal rate of interest on the loans made by the stockholders, which is in the shape of capital stock.

Mr. MCKINLEY. But this has nothing to do with the rate of interest.

Mr. HYDE. All the other profits are divided in proportion to the business furnished. If there is a profit of 9 cents a bushel, the man who sold 1,000 bushels would get 9 cents times 1,000 bushels. If a man furnished 100,000 bushels, he would get 9 cents times 100,000 bushels.

Mr. MCKINLEY. But who would pay the loss, if there were a loss suffered?

Mr. HYDE. If there is a loss it falls equally among all the stockholders.

Mr. MCKINLEY. Then it is heads I win and tails you lose.

Mr. HYDE. No, sir.

Mr. MCKINLEY. Let me ask you another question, because we are all here seeking information: For instance, in my district at Decatur, Ill., there is a starch factory which uses a great deal of corn. We will say that in June, 1921, they will want to use 200,000 bushels of corn; and we will say that they want to get 200,000 bushels from your county or maybe from your elevator. And you have got men there who want to sell those 200,000 bushels of corn, the 1st of January; and, naturally, they want their money. Who is going

to carry that difference represented by the sales price of the corn now and the price at which it is sold in June to the starch factory in Decatur that wants it then?

Mr. HYDE. That would depend upon the contract they would make. But it seems to me there that the man who carries the stock——

Mr. McKINLEY (interposing). Who is going to take care of the corn all that time? Your elevators are not big enough to hold your whole crops there, are they?

Mr. HYDE. No, sir.

Mr. McKINLEY. Who is going to do it?

Mr. HYDE. It depends absolutely on how they make the contract. They may make a contract by which your starch factory is going to pay now the price paid to the individuals.

Mr. McKINLEY. Oh, no. The starch factory can not do that. They want the corn on the 1st of June, you understand.

Mr. HYDE. Yes.

Mr. McKINLEY. Who is going to own this corn from the 1st of January, when your farmers want to sell and deliver same, and get their money, and the 1st of June when the starch factory wants to pay and take possession of the corn?

Mr. HYDE. When the bill of lading is issued on a car of corn that corn would certainly belong to the starch factory, but until that time——

Mr. McKINLEY (interposing). But they are not ready to buy now. They want corn delivered on the 1st of June.

Mr. HYDE. Until that time it belongs to the man who grew it.

Mr. McKINLEY. But he wants his money on the first of January.

Mr. HYDE. You are putting to me a question—well, it lays between the buyer and the seller as to what the terms of the contract shall be.

Mr. McKINLEY. But somebody has got to own that corn during those five months that must elapse between the time when the grower wants to sell it and get his money and the time when the starch factory wants to buy it and pay for it. You do not want any speculators, as I understand. Therefore who is going to own that corn for this period of five months?

Mr. HYDE. I did not say I do not want any speculators. But as to who owns the corn, if the starch factory pays for it it is theirs.

Mr. McKINLEY. No; but they do not want it now. They have, we will say, a supply of corn to last them during the period of five months between January 1 to June 1. But they want to buy corn June 1. Who owns the corn between January 1 and June 1?

Mr. HYDE. It belongs to the grower.

Mr. McKINLEY. But he wants his money on the first of January.

Mr. HULINGS. He sells it to a warehouse, of course.

Mr. McKINLEY. No; he sells it to a speculator. There must be some machinery between your man who must have his money on the 1st of January and the man who wants the corn, as I have supposed the case, on June 1. We will suppose that the starch factory has not got the money to pay for the corn until the 1st of June.

Mr. HYDE. All right.

Mr. McKINLEY. What machinery would you suggest to take care of that matter?

Mr. HYDE. Well, it will be necessary either for the grower of the corn to be financed so he can carry his crops, or——

Mr. MCKINLEY (interposing). But he can not carry it, as I understand.

Mr. HYDE (continuing). Wait a minute. It would be necessary for a grower to be financed so that he can keep his crop, so that he may market it during a period of 12 months rather than one or two months after the harvest; or else someone must buy that corn and carry it for him.

Mr. MCKINLEY. Would your idea be that the Government better buy it and finance it from the 1st of January?

Mr. HYDE. That is foreign to this bill, isn't it?

Mr. MCKINLEY. We are here seeking information. We want to stop this gambling.

Mr. HYDE. Well, I suggest this method: that at some time the Government might, in view of the conditions that now confront farmers all over he country——

Mr. MCKINLEY (interposing). Well, we are all voting for that.

Mr. HYDE (continuing). That the Government might at sometime possibly make a careful estimate of the cost of producing wheat, corn, and cotton, and that whenever in the market the price is less than 80 per cent of the cost of producing 85 per cent of the crop the Government might buy it, and whenever it goes 15 per cent above the price sell it. I believe that such a law would be a benefit to the producer as well as to the consumer. It would tend to stabilize the price during the whole year. It would be a benefit at the same time to the miller, because there would be a stabilized price during the whole year. It would be a benefit to the banker who loans money, because the crops would never go below 80 per cent. And on the question whether it would ever cost the Government any considerable amount of money, I do not believe it would.

Mr. HUTCHINSON. Suppose the Government were to make a profit, under your suggested plan, would it get that profit?

Mr. HYDE. Yes, sir. Furthermore, consumers do not pay the price that might be considered as based on the wholesale price of agricultural products the year round, but usually pay a price that reflects the highest price during the year.

If you gentlemen care for a little report that I made after an investigation recently, I will give it to you. On the 6th and 7th of December we called the mills in Oklahoma City and asked them the price they would pay for best No. 2 wheat. They replied $1.37 a bushel. We went to the retailers of flour in Oklahoma, flour from those mills, and they were selling at 6 cents a pound. A 50-bushel load of wheat at that rate would sell for $68.50. When that wheat was made into flour, and counting the by-products, shorts, and bran—considering shorts as mill run at 2 cents a pound, and some was $2.10 and $2.20 a hundred pounds—and that load of wheat, without any freight, made into flour, is sold in Oklahoma City for $144. Taking the Government's estimate, the estimate of the Department of Agriculture, of the amount of flour in a 16-ounce loaf of bread, and buying bread out of the bakeshops, and that load of wheat when made into bread, together with the 900 pounds of by-products, that is shorts and bran, sold for $393 without any freight on it.

We made an investigation on a line of cotton goods and woolen goods and also on beef. These we have up now.

Mr. HUTCHINSON. What did the farmer get for the load of grain?

Mr. HYDE. He got $68.50. If you counted out one-third of the crop as rent, and counted out the threshing bill, at the ordinary price, and the twine bill at what we paid last year, then out of each dollar that the consumer pays for bread the farmer gets 4.26 cents net, and his gross price out of each dollar that the consumer paid was 17.6 cents.

We took up cotton, and if you want it I will give you that. The cheapest cotton that we could buy by the pound was cotton batting. Assuming that that was made from the best grade of cotton, out of each dollar that the consumer paid for cotton batts the grower got 11 cents. Out of cotton flannel he got something like 7.96 cents; for muslin a little less. Coming down to organdie cloth, and assuming that that was made out of the best grade of cotton we have in Oklahoma and that it sold for the highest price, for each dollar that the consumer paid for organdie cloth the farmer got one-tenth of 1 cent.

Mr. HUTCHINSON. You do not intend that this proposition as to this load of wheat should go into the record on that basis, do you?

Mr. HYDE. That is up to you gentlemen, whether it does or not?

Mr. TINCHER. Why, it is in the record.

Mr. HUTCHINSON. Yes; but you spoke of 10 barrels of flour made out of a load of wheat.

Mr. HYDE. I did not mention barrels at all.

Mr. HUTCHINSON. But there are only 3,000 pounds in 50 bushels of wheat.

Mr. HYDE. Yes; 2,100 pounds of flour in it.

Mr. HUTCHINSON. Yes.

Mr. HYDE. And 900 pounds of by-products, shorts, and bran.

Mr. HUTCHINSON. We will say that. Now you say that that flour was sold for 6 cents a pound?

Mr. HYDE. That is $126.

Mr. HUTCHINSON. In Oklahoma now?

Mr. HYDE. Yes, sir. It was that way on the 6th and 7th of December, retail in Oklahoma City. We have three daily papers, and I took one reporter from each of the three daily papers, with the reporters from two agricultural papers of general circulation, and we went to nine different stores and inquired the price of flour, and to 11 or 12 bakeries, and to 9 different meat shops and inquired as to meat.

Mr. HUTCHINSON. You say that wheat is selling for $1.37 a bushel and flour at $12 a barrel?

Mr. HYDE. No, sir; I said what the price was on December 6 or 7.

Mr. HUTCHINSON. When was the wheat sold?

Mr. HYDE. December 6 or 7 is the date we took the price of wheat.

Mr. HUTCHINSON. And the same date the price of flour was $12 a barrel?

Mr. HYDE. I said the flour was 6 cents a pound. Yes; that would be at the rate of $12 a barrel.

Mr. VOIGT. Was that the miller's price?

Mr. HYDE. That was what the consumer was paying. We did not attempt in any of our investigations to say that the miller was getting so much, and the wholesaler so much. and the jobber so much.

We did intend to show only what the producer got and what the consumer paid. As to the machinery, whether the route that it now travels over is the shortest or not, we did not attempt to say. We did not attempt to say whether that was the best route; we wanted to show that the small amount that the producer go out of what the consumer paid, represented the existing situation. And it is up to the consumer and to the distributors to show who is getting the difference. We showed what we producers got.

Mr. HUTCHINSON. This price of 6 cents a pound for flour was the price at retail stores, I take it?

Mr. HYDE. Yes, sir.

Mr. HUTCHINSON. In lots of two or three pounds or in barrel lots?

Mr. HYDE. In 50-pound sacks. I should say that in 25-pound sacks the price was the same at one store. The smaller sacks of flour were all above 6 cents a pound.

Mr. HUTCHINSON. I want to say to you that in the east we are paying $1.90 per bushel for wheat and selling flour for $9 a barrel.

Mr. TINCHER. Do you know what it is retailing at?

Mr. HUTCHINSON. Yes.

Mr. HYDE. I am not a miller.

Mr. HUTCHINSON. You are making a statement that in Oklahoma the millers are paying $68.50 for a load of wheat and getting it down to the final consumer in the shape of bread at $300 or $400. It seems to me you are going upon a wrong assumption. Take middlings and bran taken from Minnesota wheat, and it is sold at $25 a ton in sacks to cover all. It seem to me your farmers are paying too much for bran if you are now doing what you said there, and that you ought to get down and start a mill.

Mr. HYDE. If we had the money we would.

Mr. WILSON. You evidently have some excessive profiteers down there in Oklahoma, it seems to me.

Mr. HYDE. Is that all you want to ask me, gentlemen?

Mr. TINCHER. You need not be alarmed at some of these questions.

Mr. HYDE. I am not scared at all.

Mr. HUTCHINSON. Did you find out at what price the millers were selling flour at wholesale?

Mr. HYDE. No, sir.

Mr. HUTCHINSON. Why not?

Mr. HYDE. It was not up to us to do it.

Mr. HUTCHINSON. You were certainly interested in your country, weren't you?

Mr. HYDE. We were in this case only interested in what the producer gets. We wanted to show the consumer that it made very little difference to him whether wheat was $1.50 a bushel or $2.50 a bushel; that the producer gets a very small per cent out of the dollar he pays. We were trying to impress on the consumer that it was more important to him that the producer should get a living price, that he might continue producing and so that the people in the cities would have employment, rather than attempt to show what each man between the producer and the consumer got out of it.

Mr. HUTCHINSON. Are there any mills for sale out in Oklahoma?

Mr. HYDE. I do not know. I am not an advertising agency.

Mr. MCKINLEY. Was that Oklahoma flour?

Mr. HYDE. Yes, sir.

Mr. TINCHER. It is selling at 10 cents a pound to-day in the District of Columbia, I think.

Mr. McLAUGHLIN of Michigan. I may be very dull but I do not see any relation between what you have said to the committee and the matter of stock exchanges.

Mr. HYDE. There is not, and I apologize, but one member of the committee asked me to give the figures.

Mr. McLAUGHLIN of Michigan. I am not blaming you at all. I really want information in regard to stock exchanges. If there are some evils that produce bad results such as you speak of, will you point them out?

Mr. DICKINSON (author of H. R. 14654). I want to ask Mr. Hyde a question, if I may?

The CHAIRMAN. Certainly, Mr. Dickinson.

Mr. DICKINSON. Mr. Hyde, do you think it necessary to carry corn for Mr. McKinley's starch factory during a period of five months in order to maintain a board of trade dealing in futures?

Mr. HYDE. I do not think it is.

Mr. McKINLEY. Please explain to the committee how you would do it.

Mr. HYDE. I will answer you by stating that as one of the members of the Farmers' Marketing Committee of seventeen, we have been in session almost continuously for three months, and while the Farmers' Marketing Committee is not appearing before you as a committee, we are working on a plan by which we hope it will not be necessary to have future sales. One of our men, who has charge of that, will appear before you. We are making a careful investigation, and when we do build a structure we want that structure to be built upon a firm foundation, so that there may be no question as to its functioning under all conditions. We have been almost continuously in session during the last three months.

Mr. McKINLEY. You have read Mr. Dickinson's bill, have you?

Mr. HYDE. No, sir; I have not. I was asked to state how the farmers of the Southwest stood on future trading, and I want to say that they are against it, generally.

Mr. McKINLEY. I was wondering whether you thought these bills before us would cover the situation.

Mr. HYDE. I do not know. I have not read them.

Mr. PURNELL. I believe you were interrupted and did not answer Mr. McLaughlin's question. Will you address yourself to that?

Mr. HYDE. I do not remember now what his question was.

Mr. PURNELL. Let the reporter read it to you.

(The reporter read as follows:)

If there are some evils that produce the bad results you speak of, will you point them out to the committee?

Mr. McLAUGHLIN of Michigan. Will you tell us about the produce exchanges?

Mr. HYDE. It is my idea that it is possible with future trading as is now done for two or three of us to sell—for instance, if we have the money to carry a big lot of wheat over, and if we may know of a mill that wants to buy, or of a country that wants to buy, in the near future a considerable amount of wheat, a few of us could sell the wheat down and our own men could buy it. The price of wheat is

reflected as going down a little each day. The loss we are absorbing ourselves, as we are selling to ourselves. I believe such a condition should be brought about whereby the farmer, with the present condition of credit—and if he has the wheat he can not get any credit, and they are forcing him to sell his wheat—we could acquire this wheat at the price he has to sell it, and then raise the price after we get it. Do I answer you?

Mr. McLAUGHLIN of Michigan. I heard what you said, but I do not know that I fully understand it all. I am very glad to have your opinion.

Mr. McKINLEY. What you really mean is that some agency of the Government must step in and do that. Isn't that your idea?

Mr. HYDE. There must be some protection provided.

Mr. PURNELL. You are not seriously advocating that the Government should step in and assume the loss, if there is any, do you?

Mr. HYDE. No; but if the market is to be a true indicator of the cash price for wheat, then information as to who is buying and who is selling should be published. As it is now the public does not know whether I am buying or whether I am selling if I am dealing on the board of trade. From all the information I have, and I do not qualify as a board of trade man, but from all the information I can get the public does not know whether certain interests are buying or whether they are selling.

Mr. VOIGT. What you are really interested in is to have some law enacted to make it impossible for a man to sell a commodity unless he actually has it for sale. And it would be well, perhaps, to provide in such a law that the location and the quantity should be specified in the sale, so that there could not be any bogus sales.

Mr. HYDE. It seems to me it would be well to do that.

Mr. VOIGT. Getting back to Mr. McKinley's question to you, you do not object to men dealing in grain, do you?

Mr. HYDE. No.

Mr. VOIGT. For instance, if I were a grain dealer in Chicago you wouldn't object to my buying your grain in Oklahoma at this time and holding it and selling it to this starch company in June that Mr. McKinley referred to?

Mr. HYDE. No; and I want to say that if you were dealing in cotton the South would welcome you with open arms if you would just buy their cotton. We want some one to buy it. That is what we are raising it for.

Mr. PURNELL. Do you want a man to have actual physical possession of it before he can sell it, or merely the right to call for it?

Mr. HYDE. I want the man that buys my grain to want that grain. What he does with it afterwards is up to him; I have sold it then.

Mr. VOIGT. You want that man to have the legal title to that grain, to own it, whether it is in his possession or not.

Mr. HYDE. If I sell him my grain I want him to have possession of it generally, whether he sells it to the starch company or not.

Mr. WILSON. You don't care whether he has possession of it if you get your money, do you?

Mr. HYDE. No.

Mr. WILSON. You don't care whether he has the legal title or possession or anything else, do you?

Mr. HYDE. He would have the legal title if he paid for it.

Mr. WILSON. You are not interested in that feature of it.

Mr. HYDE. No, sir.

Mr. WILSON. All you are interested in is getting the money for your grain?

Mr. HYDE. Yes, sir.

Mr. MCKINLEY. Well, Mr. Hyde, does not the trouble come right in there? For instance, your man in Oklahoma—and I know about the West—he has to have his money, because he may be, like the most of them, poor.

Mr. HYDE. Yes, sir.

Mr. MCKINLEY. And not only that man, but every other man practically that is raising a crop there has to have his money. You are willing that there should be middle men to hold this grain between the time of purchase and of sale?

Mr. HYDE. Sure.

Mr. MCKINLEY. That middle man does not know what he is going to get from the Staley Starch Co. on the 1st of June. He is a speculator, and if there is a great amount of grain offered him on the 1st of January he is going to fix that price to suit himself to an extent. You want to protect against that, and we all do. How are we going to do it?

Mr. HYDE. On the question whether it would be advisable under any condition to say that I could not buy the actual grain if I wanted the grain, if I wanted to pay you for your product?

Mr. MCKINLEY. Well, but a hedge is buying the actual grain, isn't it?

Mr. HYDE. No; a hedge is selling the actual grain.

Mr. MCKINLEY. Well, but somebody else has to buy.

Mr. HYDE. Yes, sir.

Mr. MCKINLEY. And if they are good for it you take it, don't you?

Mr. HYDE. Yes, sir. I didn't say I was against hedging, but against speculative selling.

Mr. MCKINLEY. Anything is speculative. If you do not know what you are going to get for a thing, aren't you speculating if you buy now?

Mr. HYDE. I am not defending hedging, because we do not work it, but I am not speculating if I have a thousand bushels of wheat and I sell for future delivery that one thousand bushels of wheat to somebody else. I have the actual commodity that I can deliver.

Mr. MCKINLEY. Yes; but isn't the man speculating who buys that grain from you on the 1st of January, or from a farmer, and hopes to sell it to the Staley Starch Co. on the 1st of June?

Mr. HYDE. Yes, sir.

Mr. MCKINLEY. Still, he has got the product.

Mr. HYDE. Yes; and it may be, and probably would, that your starch company, the one that you refer to, if speculative dealings were cut out, would be glad to buy directly from the man who has the corn.

Mr. MCKINLEY. But they have not got the money to buy now.

Mr. HYDE. They could buy for future delivery the same as the speculator does.

Mr. MCKINLEY. But somebody has got to pay for it.

Mr. HYDE. You put the case this way, that the speculator bought the corn on January 1 and paid for it, but that he does not expect to sell it to your starch company until the 1st of June?

Mr. MCKINLEY. Yes.

Mr. HYDE. And then he had paid for it?

Mr. MCKINLEY. Yes.

Mr. HYDE. It would take no more money for the starch company to buy then than for the speculator to buy.

Mr. MCKINLEY. But they had not got the money to pay for it at that time.

Mr. HYDE. They only have to pay one-tenth of it.

Mr. MCKINLEY. But somebody has to pay it all. Your farmer needs it all.

Mr. HYDE. Yes, sir.

Mr. MCLAUGHLIN of Michigan. Take the case that the former witness referred to, where the manager of their elevators found that they had a large quantity of corn on hand, and in order to protect the company he sold an equal amount of corn—that was hedging—for the company's protection. Do you think that was proper?

Mr. HYDE. That lies with that man. The company that I have stock in would not do that.

Mr. MCLAUGHLIN of Michigan. His company had the actual grain on hand and he sold for future delivery. Was there speculation in that?

Mr. HYDE. I think not.

Mr. MCLAUGHLIN of Michigan. He had no intention whatever of delivering that grain, actually delivering it, did he?

Mr. HYDE. I do not know, but from the testimony I heard he was anxious to deliver it. He had it and was anxious to deliver it.

Mr. MCLAUGHLIN of Michigan. Didn't he go into that hedging proposition solely for protection and not with the idea of selling the actual grain that the company had?

Mr. HYDE. Well, I can not answer as to what his intentions were. I presume you are correct, but I do not know.

Mr. MCLAUGHLIN of Michigan. When this company that had the actual grain indulged in this hedging you say that is not speculation. Are you right in that? Wasn't it speculation, and wasn't it gone into solely for protection and not with the idea at all of delivering the actual grain?

Mr. HYDE. I presume that transaction was what you say, but taking the two transactions together they were not a speculation.

Mr. MCLAUGHLIN of Michigan. Suppose this manager had the intention of delivering the actual grain.

Mr. HYDE. All right.

Mr. MCLAUGHLIN of Michigan. Somebody had to be at the other end of that transaction and buy?

Mr. HYDE. Yes, sir.

Mr. MCLAUGHLIN of Michigan. The manager sold and somebody had to buy?

Mr. HYDE. Yes, sir.

Mr. MCLAUGHLIN of Michigan. How would there be anybody to buy except some one who was in the grain business and intended to receive the actual grain? Is that the idea?

Mr. HYDE. You are misquoting me. I did not say I would not allow that. I said that the farmers of the Southwest are protesting against future speculative dealings. I did not say I was. I say the farmers of the Southwest are against it. At the State meeting of the wheat growers and of the Farmers' Union they have gone on record as against future speculative sales.

Mr. MCLAUGHLIN of Michigan. Somebody had to buy when this manager of this elevator wished to sell, to hedge.

Mr. HYDE. Yes, sir.

Mr. MCLAUGHLIN of Michigan. Somebody has to buy in order that there might be a sale?

Mr. HYDE. Yes, sir.

Mr. MCLAUGHLIN of Michigan. In all probability it is somebody who is speculating, the same as that manager was. Is it material to you who buys, or is it material to the manager who buys if he finds somebody to buy when he wants to sell?

Mr. HYDE. It would not be if I was in that position.

Mr. MCLAUGHLIN of Michigan. There was some unfortunate condition existing at the time that the transaction the former witness spoke of; there was inability to get cars to make the shipments of corn. I do not know that that could have been provided against, or that any law could be passed that would improve that condition or that would prevent its recurrence. But the witness evidently thought there was some improper transaction going on somewhere that caused the loss. Have you any idea what those improper conditions or improper transactions were?

Mr. HYDE. I have not. I could not pass on a transaction that I knew nothing about; nor could I read the man's thoughts. He is here and he can tell you what he thought was wrong.

Mr. MCLAUGHLIN of Michigan. We asked him and he said he did not know.

Mr. HYDE. Well, I can not tell you.

Mr. MCLAUGHLIN of Michigan. It has been insinuated that there was some improper transaction going on in the board of trade that produced that bad condition. Will there be somebody here to tell us what that was?

Mr. HYDE. I am sure I do not know.

Mr. MCLAUGHLIN of Michigan. And to suggest how that might be eliminated by law?

Mr. HYDE. I am sure I do not know.

Mr. MCLAUGHLIN of Michigan. Before we can do anything we must know what is wrong.

Mr. HYDE. You should.

Mr. HUTCHINSON. Suppose the manager of this elevator company were to sell an option, then he would have lost money on the actual corn, wouldn't he?

Mr. HYDE. Well, there is the report that he lost money on the option and lost money on the corn, too.

Mr. HUTCHINSON. He sold out his option and did not hold it.

Mr. HYDE. From the circumstances the witness gave it was a double loss.

Mr. HUTCHINSON. Because he did not sell both together. That is very evident.

Mr. HYDE. Well, I thank you gentlemen.

The CHAIRMAN. The committee is grateful to you.

I have a request from Mr. Hoch, who desires Mr. L. E. Moss, of Kansas City, to appear here on January 5. If there is no objection a part of that day will be set aside for Mr. Moss.

I also have a request from the Secretary of the Chicago Board of Trade, who desires to be heard after those who favor the proposed legislation have been heard.

Mr. MCLAUGHLIN of Michigan. I suggest that the Chairman get from the gentlemen who appear in favor of these bills the number of witnesses and the time they will likely want, so that we may know as soon as possible the amount of time that will be needed, and then notify the other people who wish to be heard when they may appear.

The CHAIRMAN. If it will be agreeable to the committee I will wire the secretary of the Chicago Board of Trade that he may be heard after the proponents of the bill have been heard. Without objection that will be done.

Mr. VOIGT. I suggest that when you wire the Board of Trade of Chicago that you request him to bring with him figures to show the amount of business done on that Board of Trade for 1920, showing the amount of actual sales and sales of futures. That is speculative sales.

The CHAIRMAN. Without objection it will be so ordered. The committee will now recess until to-morrow morning at 10 o'clock.

(Thereupon, at 12 o'clock noon, the committee recessed until 10 o'clock to-morrow, Wednesday, January 5, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Wednesday, January 5, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order, we will hear from Mr. Reynolds first this morning.

STATEMENT OF MR. A. E. REYNOLDS, CHAIRMAN OF THE LEGISLATIVE COMMITTEE OF THE GRAIN DEALERS' NATIONAL ASSOCIATION, CRAWFORDSVILLE, IND.

The CHAIRMAN. Mr. Reynolds, you will please state your name, place of residence, and business.

Mr. REYNOLDS. My name is A. E. Reynolds, and my residence is Crawfordsville, Ind. I am chairman of the legislative committee of the Grain Dealers' National Association—and by legislative committee I mean simply that legislative matters are referred to my committee—and I am a country grain dealer, buying direct from the farmers.

I promised my friend, Mr. Purnell, that I would be very brief, and I made a few notes on yesterday of what I wanted to say. I can say that as far as I am concerned our elevators do not need directly the hedging privilege. We rarely ever hedge. We, however, do require in the country a very stable market, or nearly a stable market, so that we may determine each day, primarily, how much we shall pay for grain. Now, how do we arrive at that? I would like to say that there is no mystery about the grain business if one will just dig in a little and find out about it.

It has been charged that certain people make the market. I am not ready to either confirm or deny that statement. But I can tell you know I determine, or how we in our business determine how to bid each day. We have coming on our desk each morning lists from probably 50 different firms, from all over the United States, for all kinds of grain and all grades of grain—wheat, corn, rye, oats, and so forth; and for all kinds of delivery—for immediate shipment, for prompt shipment, for 10 days' shipment, and 30 days' shipment, and for future months, sometimes three or four months ahead.

We take these bids and compare them with the kinds of grain that we have to offer. One day we may be able to sell to a mill in

Louisville, Ky., wheat to greater advantage than we can ship it anywhere else. That has a large influence on what we pay for grain that day. I will go over the bids received from brokers, and after looking them over carefully and compiling them, we determine what is the best thing to do with the grain we want to sell that day; and that largely determines the price that we will bid that day.

Now, I am coming to the question of the hedging privilege. We indirectly get the benefit every day of hedging, because the man who makes us a bid, in order to be safe, must find a buyer. He must do that or he would not make a bid to us. He must feel safe himself or he would not be able to make us a bid. Therefore, I take it, that hedging is not so important to the primary market, the country buyer, as it is to the man higher up, who continually furnishes to us the prices that aid us in determining what we can pay, and which gives us, as nearly as possible, a stable market upon which we can rely from day to day, and as to which we must know.

To illustrate, if Brown brings me a lot of grain in the morning I must have a price to pay. It is optional whether I will take his grain or not, but it is not optional as far as our trade is concerned. If a man we trade with offers his grain to us and we do not buy it, of course, he goes somewhere else, and, of course, you know what that may mean. Farmers come to us sometimes and say: I want to sell grain for 30 days ahead. Sometimes they want to sell us grain even before it is harvested. Sometimes they want to draw money on such contracts, and we buy stuff sometimes without the price being fixed because we are to pay the market price at time of delivery. But, ordinarily, grain comes to us every day for sale that day on a market that we must fix.

Now, gentlemen of the committee, there is nothing mysterious about how we fix that. I have explained to you that we must pay a fair price or we will be out of business with our farmer friends who are competitors, and that we have on all sides. Therefore competition forces us to pay a fair price, which fair price we must determine by bids or conditions presented to us each morning. It is for that reason I say that I personally do not need to hedge and I rarely ever do hedge. But I do think that in every sale I make I get the benefit of somebody else's hedging. I think I am getting the benefit of future trading to the extent that I have positively put before me each morning the prices that I can sell grain for for cash shipment and for future shipment. In that way hedging comes to my rescue daily.

You have heard of future trading and option trading. As I take it, after being up against it for a good many years, there is really no difference between future trading and option trading. Any future trade may become an option trade. Let us suppose that I have 10,000 bushels of wheat in my elevator to-day. And let us suppose I hedge it, so-called. I sell to the hominy mill mentioned by Mr. McKinley 10,000 bushels of corn for May delivery. At the time I sell that corn I have it in my elevator or in sight. I in good faith sell it with the intent of carrying it until May 1 and then shipping it to the hominy mill in accordance with my contract. So far it is purely and simply a future sale. It may, however, become an option

sale at any time should I go to the hominy mill and say: I want out of that contract. How much? If the market is up they will let me out. The price may be more than I paid, and they may pay me back some money. On the other hand, the market may be less than at which I sold, and then I pay them back the difference. There comes in the option and margin business.

I may go to Chicago and buy that corn from a dealer to be shipped to the hominy mill in May. I have transferred the trade then to the other men. Suppose to-morrow, after I have sold to Mr. McKinley's hominy mill 10,000 bushels of corn for May, a near-by neighbor finds he can pay me 70 cents a bushel for that corn now, and therefore I do not have to carry that corn until May. All right. I do not want the corn; I want the money. I sell it, and then I simply go somewhere else and buy corn for Mr. McKinley's hominy mill, or go to Mr. McKinley's hominy mill direct and buy in my May trade.

Therefore the sharp distinction between future trading and option trading lies in the mental intent. You ask, is the intent to deliver actually present in every transaction? In the case of the country shipper I should say it usually is. On the Chicago Board of Trade I would say they have no mental process as to whether they do intend to deliver or not. But the rules of the Chicago Board of Trade and of every other market so far as I know, are to the effect that if the buyer persists in wanting delivery until the time for delivery comes then the delivery must be made.

But let us get away from grain and say I buy a farm in the same way, possession thereof or delivery thereof to be made next March. I have bought it and paid so much. Let us assume that in the meantime I find I can sell that farm to Mr. A. for $10 an acre more than I paid for it. The farm has never been transferred to me at all. I have always had an option of having it delivered to somebody else and have that somebody else complete my contract. The difference between the price I agree to pay and what the other fellow pays is my margin. If it should be less I would have to pay the difference.

I hope you gentlemen will pardon me when I speak to you in this way, but possibly I am speaking, to some extent at least, to laymen who are not acquainted with this matter and who are not all in the grain business. That is the difference between future trading and option trading; but it may become intermingled by voluntary action between buyer and seller.

Mr. McLAUGHLIN of Michigan. Do you wish to complete your statement or will you submit to questions now?

Mr. REYNOLDS. I did not catch your question?

Mr. McLAUGHLIN of Michigan. I merely wish to know whether you desire first to complete your statement or whether you will now submit to questions?

Mr. REYNOLDS. I would like to complete my statement, if you please. It is very brief, I will say.

Mr. McLAUGHLIN of Michigan. All right.

Mr. REYNOLDS. Now, the next question comes in, gentlemen—and I am not speaking to any bill, but, as I understand, to the particular question of control of exchanges and therefore control of future trading. I have not given very close thought to any of these bills but let us suppose the proposition is up that no man can sell for

future delivery except a cash holder of grain, a commodity that he has on hand. I think that a most dangerous proposition; perhaps the most dangerous proposition that could be introduced into the grain business. Why? For the reason that it is quite easy to conceive that one man even, or a very few men, could buy up and hold and have possession of all the visible supply of grain at some times. We quite often, toward the end of the grain season, have as our visible supply of grain—that is, grain that is out of the farmer's hands and which has not yet reached the consumers' hands—less than 30,000,000 bushels, either of corn, wheat, or oats.

It would be possible for a man or a syndicate to buy those 30,000,000 bushels of whatever cereal it might be, wheat, corn, rye, or oats, and control the situation. We can easily conceive such a situation. Such a man or syndicate does not have to buy it all, only to buy any considerable part of it, and then he or it has control absolutely. If it be wheat, he or they can control the movement of that wheat. If all side issues are cut out, so that he or they do not have to do anything but buy wheat and put it in his or their elevator and pay for it, he or they can do just as they please. I can very easily conceive a situation where such a man would say: I will not sell any of this wheat for 30 or 60 days; and he would therefore stop the bread supply or the food supply at once. I can very easily see a condition in which he would say: I will sell 20,000,000 bushels of this wheat at rock-bottom price and smash the market all to pieces, and then all the back supply I will get at my own price.

Mr. McLAUGHLIN of Michigan. Do you tell us that in calculating the visible supplies you do not take into account the grain still in the hands of the farmers?

Mr. REYNOLDS. I was speaking of the visible supply as the amount that is out of the hands of the farmers and between the farmer and the cosnumer—the visible supply, in that sense, I mean, is that wheat in the markets throughout the country. I mean the stuff that is in commercial motion. Of course, visible supply, as the Government views the situation, is all that is in the country; but for trading purposes we always say "visible supply," and when you see in the commercial reports visible supply of wheat, visible supply of corn, it means commercially that which has left the farmers' hands and not yet reached the consumer.

Mr. McLAUGHLIN of Michigan. Is it proper to speak of that visible supply as you use the term when you speak of cornering the market?

Mr. REYNOLDS. That is the principal element that enters into what is called a corner. We have usually between producer and consumer 60,000,000 bushels of wheat, in motion; that is, between the farmer and the consumer. But that is reduced quite often toward the end of the season to much less than 60,000,000 bushels; as I have said, under 30,000,000 bushels. In 1918 we had, on the first day of June, less than 15,000,000 bushels of visible wheat. That was the time of the great shortage, or when the great shortage was imminent, and when we all went on the bread ration.

Now, then, as we are dealing with the question of exchanges, let me say that they are the go-between in large measure between producer and consumer. If we can conceive a state of affairs where the producer will receive all that he thinks he ought to receive for

grain and other food supplies, and when the consumer can always buy as cheaply as he thinks he ought to buy, that would be the ideal situation. But therein comes the eternal conflict. It is human nature that the producer wishes to sell his product at as high a price as possible, and certainly above cost of production, and the consumer wishes to buy as cheaply as possible. Human desire is always the same, and with that situation existing, so far as I can see, the eternal conflict I have referred to will always continue.

Pardon me for disgressing a few words, but if you were to ask the question: Is the price of grain high enough? I would answer I do not know. I have given 37 years' study to this question, and I do not know whether it is high enough or not. But if it is high enough, then the question would be: Are grain foods cheap enough? That is the other side of the question. And I do not know, gentlemen of the committee, whether they are cheap enough or not. But if grain is high enough, or if foodstuffs are too high, then somewhere between the producer of grain and the consumer of grain products lies the difficulty that you gentlemen and all of us are looking for.

That difficulty lies somewhere between the two prices—that paid to the producer and that paid by the consumer. That question I can not answer, although I have tried for many years to give careful, honest consideration to the question. I can not tell you whether grain is high enough or not; and I do not believe anybody else can tell you, because I do not believe anybody knows. I do not know whether foodstuffs are high enough or low enough, and I do not believe any living man knows. I believe that to be the eternal conflict between producer and consumer, and a question that can never be settled as long as the human tendencies are as they are.

Gentlemen of the committee, I do not know to what extent, if any, the exchanges ought to be regulated. I do know, however, the great danger which threatens from bringing forth something of which we know little and doing away with something which we have operated for a long time. To substitute something new, of which we know nothing, or with which we have not had experience, presents a danger that might be more or less serious.

As a country jobber I know that I can not go out intelligently and buy grain from the farmer and pay as much for it as I pay now if I do not know what I can do with it after I buy it. I could not possibly go out and buy from the farmer and pay as large a price for grain if put in a position that I can not tell what I will get for it as I pay now, when I know what I can do with the grain after I buy it.

Gentlemen of the committee, if you remove from me the possibility of determining what I can get for grain, determine that question before I buy it, you must at the same time give me the privilege of taking the chance on my side of buying at a small enough price to be able to let me out, else you wreck me on the shoal of uncertainty by putting me up against rocks where I can not extricate myself.

If the option gives to me knowledge and the source from which to gain my knowledge as to what I can pay, then do not take that away from me. If you can substitute something else that will give me just as certain a knowledge of what I can sell the grain for, so

that I may honestly and earnestly go to my constituency and make a price this morning, which I can do now, all right. As the conditions are now I can not escape that responsibility. Competition is keen and I must meet competition. My competitors know just as much about the market as I do, and if I do not pay the proper price they will; and in that case they will get the business, and I will be without business. If in changing the situation you can give me something else which will enable me to determine the market with as great a certainty as the means now at hand I am ready to give it a trial.

I want to add that I do not own a dollar in any exchange anywhere. I do not own any interest, either directly or indirectly, in any exchange. My interest lies in being able to conduct my country grain business in a proper and legitimate way and make a living in the face of this wave of competition that is growing up through farmers' cooperative associations. I do not want something done that will deprive me of my business, and which at the same time might demoralize the whole situation. I must and do work against that sharp competition. In order to do it I must treat my constituency fairly, and in order to do that I must be able to tell the farmers each day how much I can honestly pay them for their grain. In order to do that I must have somewhere to shift the burden. from day to day, or else I could not long continue in my business.

Furthermore, gentlemen of the committee, as far as I am able to see the business of handling grain, between producer and consumer, has been reduced to as near a science as it has been possible to so reduce it. I am not here to argue that there are not times when the speculator may take advantage of conditions and force prices abnormally low or abnormally high. I think it would be folly to say otherwise. I do not want to go into that part of the argument, but do want to stick most religiously to the question which affects me personally, and that is, to be able to conduct my business on as sure and certain a plan as possible, so that I may continue in my line of business.

Now, gentlemen of the committee, I will be very glad to answer any questions I can, and I will ask you gentlemen at the farther end of the table to speak rather loudly, as, unfortunately, I am not quite as keen of hearing as I was at one time.

Well, before I close, let me say that Mr. Charles Quinn, secretary of the Grain Dealers' National Association, calls my attention to a letter, and a paragraph thereof I wish to read you. After all, gentlemen of the committee, when you shear this of all its side lights, turn off all the glamor there is in it, you want to pay the farmer all you can for his grain and yet furnish to the consumer foodstuffs as cheaply as possible. I want to read this letter to you, or at least a portion of it, it being from Mr. George P. Bissell, secretary of T. B. Hord Grain Co., Central City, Nebr.:

One important factor in the lowered price of grain to the farmer seems to be overlooked and not commented upon in any articles I have seen. A referred to the tremendous advance in freight charges since prewar time. For example, the old freight rate to Omaha from Grand Island, Nebr., before the war was 11.9 cents per hundredweight, equal to 6⅔ cents per bushel, whereas now the freight and war tax amounts to 22.5 cents per hundredweight, equal to 11.98 cents per bushel, an advance of 5⅓ cents per bushel, or 80 per cent increase since prewar time.

Mr. WILSON. I do not quite get your statement there, Mr. Reynolds. You say——

Mr. REYNOLDS (interposing). In order that you may get that clearly just let me read it over again, in fact all of the letter from there down:

One important factor in the lowered price of grain to the farmer seems to be overlooked and not commented upon in any articles I have seen. I referred to the tremendous advance in freight charges since prewar time. For example, the old freight rate to Omaha from Grand Island, Nebr., before the time. On corn to Chicago the old rate from Grand Island was 22.9 cents per war was 11.9 cents per hundredweight, equal to 6⅝ cents per bushel, whereas now the freight and war tax amounts to 22.5 cents per hundredweight, equal to 11.98 cents per bushel, an advance of 5⅓ cents per bushel, or 80 per cent increase since prewar time. On corn to Chicago the old rate from Grand Island was 22.9 cents per hundredweight, or 12.88 cents per bushel. The through rate is 42.5 cents per hundredweight, which with the war tax amount to 24.53 cents per bushel to Chicago, an increase of over 90 per cent.

Now, if this 11.65 cents per bushel were added to the present paying price for corn, the farmer would think he had a quite satisfactory return on his money for we gave a big crop, and at present are paying 49 cents here for good yellow corn.

This should make the paying price 60 cents for the same corn if were paying prewar transportation charges. I only introduce that because the question was touched on yesterday, and this is a general idea of the situation; and those figures will be about carried out throughout the country as to transportation charges on grain, which, you will see, amount to nearly double what they were, or 80 per cent increase in one case and 90 per cent in another case.

Mr. MCKINLEY. Of course, of that 90 per cent advance 15 per cent of it goes to the Government in the shape of war tax.

Mr. REYNOLDS. Well, I do not know just how much of that does go to the Government, Mr. McKinley.

Mr. MCKINLEY. It is an 8 per cent war tax.

Mr. REYNOLDS. All right.

The CHAIRMAN. According to your statement the freight is about 36 cents a bushel from Grand Island, Nebr., to Chicago?

Mr. REYNOLDS. It is 24.53 cents per bushel.

The CHAIRMAN. I thought you said it was 11.9 cents per bushel from Grand Island to Omaha.

Mr. REYNOLDS. No; the old rate, before the war, was 11.9 cents per hundredweight, equal to 6⅝ cents per bushel from Grand Island to Omaha.

The CHAIRMAN. Was that to Omaha or to Chicago?

Mr. REYNOLDS. That was from Grand Island to Omaha.

The CHAIRMAN. And from Grand Island to Chicago the rate now is, what?

Mr. REYNOLDS. It is 24.53 cents per bushel.

Mr. WILSON. What is the entire rate on corn from Grand Island to Chicago?

Mr. REYNOLDS. It is 24.53 cents per bushel.

The CHAIRMAN. Is that from Grand Island to Omaha or from Grand Island to Chicago.

Mr. REYNOLDS. The present rate from Grand Island to Omaha, war tax included, is 11.98 cents per bushel, and the rate from Grand Island to Chicago, with war tax added, amounts to 24.53 cents per bushel.

Now, gentlemen of the committee, if there are no further questions I want to say in conclusion——

Mr. TICHNER (interposing). I would like to ask some questions.

The CHAIRMAN. If Mr. Reynolds is ready to answer questions we will start with Mr. McLaughlin of Michigan. Mr. McLaughlin, do you wish to ask any questions?

Mr. MCLAUGHLIN of Michigan. Not at the present.

The CHAIRMAN. Mr. Wilson, do you wish to ask any questions?

Mr. WILSON. Not right now.

The CHAIRMAN. Mr. McKinley, do you wish to ask any questions?

Mr. MCKINLEY. No more at this time.

The CHAIRMAN. Mr. McLaughlin of Nebraska, do you wish to ask any questions?

Mr. MCLAUGHLIN of Nebraska. I would like to ask one or two questions. Mr. Reynolds, I take it from your testimony that you are opposed to the attempted legislation at this time on this subject?

Mr. REYNOLDS. I would not like to put it so broad as that; but, at the same time, gentlemen of the committee, I must say that I think the large element in this whole question to-day is the essence for consideration, time. That will solve a lot of these problems. We are in such a chaotic condition, and everybody is in such doubt as to what a thing is worth, that I think we will be safer to tread ground we know something about rather than go beyond and enact legislation for a need that may be passed before it gets into operation.

Mr. MCLAUGHLIN of Nebraska. Are you satisfied with the present shipping system?

Mr. REYNOLDS. Do you mean the present distribution system?

Mr. MCLAUGHLIN of Nebraska. Yes; the present distribution system for grain. Are you satisfied with it?

Mr. REYNOLDS. I think it has worked unusually well. I, of course, would be glad if some of the minor usages might be changed. But, as a matter of fact, they probably affect me personally, but any change might make conditions worse rather than better. I think to tamper with it at this time is a dangerous proposition, and I think it would affect me as a country buyer; that any legislation will affect me adversely as a country buyer, at least until I have a long period of trying it out. I am afraid of it.

Mr. PURNELL. Would it be possible to eliminate any of the objectionable speculative features and yet retain the good features that you or others may have suggested?

Mr. REYNOLDS. Mr. Purnell, I do not know. I want to say here to the committee, briefly, what I said to Mr. McKinley in conversation just before the committee went into session. About 10 years ago there were about a dozen of us who decided that the exchanges—and, I beg your pardon for the reference, but we thought we were prominent enough or at least able to bring about some advantageous change—and we tried to get together and work something out. We conducted a long correspondence, and tried to get together on a plan by which we would have future trading robbed of the baneful result of wild speculation—have that eliminated. We have given the subject the best thought that was within us, and I confess that we have not been able to arrive at any conclusion that we felt safe in presenting to you people. You know that I am before this com-

mittee half a dozen times a year, and have been for 10 years past, and I have studied this question very carefully and earnestly; but, gentlemen, I do not know any safe remedy; I only wish I did.

I will say this about it: If a certain charge now current is true, it is wrong. It is charged openly that exporters of wheat within the last few months, having at their command large demands from abroad, have sold at high prices wheat to go to Europe. It is charged that they immediately went out and worked the market down so as to fill the orders they had at as low a cost to themselves as possible. And, right there, gentlemen of the committee, there never will come a time when the condition will not be that the man who has money; there never will be a time when the far-sighted man, who is willing to risk all on the turn of a card, may not sometimes come out ahead. But I say to you if that is true, the charge that is being made, that those men have done that—and I am not committing myself either way—it ought not to be, and if something can be done to prevent it it ought to be done. On the other hand, whether we can afford to break in at this time with something brand new, when commerce is in the shape it is in to-day, and do away with existing conditions, without creating a condition that is probably more dangerous, is an open question that I am afraid of. Yes, gentlemen of the committee, I am afraid of it.

I wish that could be done, Mr. Purnell, but I do not see how it can be done. I do not see how a tax is going to reach that question, because it will have to reach the other man. I do not see how you can say that only the man who has grain in his possession can sell it. What about the man who buys it? He is a speculator. He buys it for next September, and he can trade it a dozen times between now and then, because, tentatively at least, he owns the grain. We can not ever arrive at a state where it does not take two people to close a transaction—buyer and seller. And one or the other of them is a speculator between the time of sale and the delivery. And without plenty of buyers we never can sell our grain. I do not know, Mr. Purnell, how it can be done otherwise. Doubtless that something should be done in some respect is a highly desirable thing, but how are you going to do it?

As to the man who goes and sits down before a blackboard and looks at what he sees there and is willing to gamble to the extent of bidding for what he sees, or buying or selling on the basis of what he sees, that is a dangerous factor, especially when he has nothing but the money that he thumbs out to pay losses or to receive profits. But I believe I am fairly well acquainted with every exchange in this country, and I can not see, after all these years of careful study, how you are going to eliminate the one without eliminating the other, or, in making good the old story of killing the goose that lays the golden egg. I wish it might be done, because we in the country do not need that part of it. The country does not need it, the farmer does not need it, and the consumer does not need it. But we are most vitally concerned in being able, in the country, to give these people a stable market, and in order to do it we must have somebody who will bid to-day for our grain.

Mr. PURNELL. But you do think that you and the farmer profit by it?

Mr. REYNOLDS. Yes, sir.

Mr. McLAUGHLIN of Nebraska. Are you yourself a producer or grower of grain?

Mr. REYNOLDS. No, sir; I am a buyer or purchaser first hand. Our business is to take the grain that comes in in single wagon lots or truck lots to our elevator and handle it.

Mr. McLAUGHLIN of Nebraska. You are not a member of any of the farmers' organizations?

Mr. REYNOLDS. No, sir; they are our competitors.

Mr. PURNELL. And you might add that you are in the best district in the United States.

Mr. McLAUGHLIN of Nebraska. No; the second best, perhaps.

Mr. TINCHER. Oh, no; what is the matter with Kansas?

Mr. REYNOLDS. Well, I want to say that we certainly are not ashamed of our congressional district, and neither are we of our representatives, gentlemen of the committee.

Mr. PURNELL. I thank you.

Mr. TINCHER. I want to say to the witness at the beginning of my examination that I agree with him fully as to the quality of his representative, although I do not know anything about his district.

Now, Mr. Reynolds, I want to ask you some questions that are rather fundamental about this business. You are a grain dealer?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. You buy and sell grain?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. When you go to your office in the morning you have bids on your desk from certain people for grain.

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. On certain grades of grain?

Mr. REYNOLDS. Yes.

Mr. TINCHER. And based upon those bids you buy grain that day and perhaps sell some grain on some of those bids.

Mr. REYNOLDS. Yes.

Mr. TINCHER. Who are those bids from?

Mr. REYNOLDS. Well, from all classes of people. I will say that usually our wheat is sold to millers.

Mr. TINCHER. Let us see who they are from. You, perhaps, have a regular line of bids; do you or not?

Mr. REYNOLDS. We have 15 stations——

Mr. TINCHER (interposing). I am not talking about your stations or elevators, but about how many bids do you have on your desk when you go to your place of business in the morning, for wheat?

Mr. REYNOLDS. Let us put it very conservatively and I will say 15 bids, usually.

Mr. TINCHER. And those 15 bids are from whom?

Mr. REYNOLDS. Well, always we have bids from New York——

Mr. TINCHER (interposing). Well, from New York, who bids on your wheat?

Mr. REYNOLDS. Do you mean as to any individual firm?

Mr. TINCHER. Yes.

Mr. REYNOLDS. Well, Forble & Co.——

Mr. McKINLEY (interposing). That does not mean anything to the committee.

Mr. TINCHER. It does mean something to me, and I want to examine the witness in my own way.

Mr. McKinley. Well, I only meant that that did not particularly give us any information.

Mr. Wilson. It may be embarrassing to the witness to tell you the details of his business.

Mr. Tincher. Oh, if I ask Mr. Reynolds any embarrassing questions he may say so. I know enough about the grain business not to ask him any embarrassing questions, and I feel sure he wants to answer our questions.

Mr. Reynolds. Of course.

The Chairman. The witness will take care of himself, I am sure.

Mr. Tincher. There is no doubt about that. He can answer for himself.

Mr. McKinley. Certainly; but I only wanted——

Mr. Tincher (interposing). Well, just let me go on with my examination.

Mr. Reynolds. Forble & Co., of New York, are commission men, or brokers.

Mr. Tincher. Who are the others?

Mr. Reynolds. Would you like to have more than one in New York?

Mr. Tincher. Yes; the others who bid for your grain from New York.

Mr. Reynolds. The Grain Export Co., of New York.

Mr. Tincher. You have two bids generally from New York?

Mr. Reynolds. Yes.

Mr. Tincher. Where are the other bids from?

Mr. Reynolds. Rosenbaum Bros., of Chicago; National Milling Co., Toledo; Pratt Grain Co., Buffalo; B. A. Boyd, Indianapolis; Ballard Milling Co., Louisville, Ky. As I do not do much of the selling I can not remember all of them, and there are a lot more. Will that answer?

Mr. Tincher. Yes. Now, who do you sell to?

Mr. Reynolds. Let us assume that this morning all I have to offer is 10 cars of wheat, and that I sell to the Ballard Milling Co., Louisville, Ky.

Mr. Tincher. They are millers in Louisville, Ky.?

Mr. Reynolds. Yes.

Mr. Tincher. Who pays for the wheat?

Mr. Reynolds. The Ballard Milling Co.

Mr. Tincher. To-morrow morning who will you supply wheat to?

Mr. Reynolds. Let us say that to-morrow the bids from New York are the best, and we will sell to Forble & Co. 10 cars of wheat that we happen to have, if we have it.

Mr. Tincher. Who pays for that wheat?

Mr. Reynolds. We always draw a draft on the buyer, no matter whether he is a broker or not.

Mr. Tincher. I understand that, but I wanted to get it into the record.

Mr. Reynolds. Yes, sir.

Mr. Tincher. I want you to be practical in this matter. You understand I do not want anything theoretical, but want to know who you really sell to. Who else would you sell to?

Mr. REYNOLDS. We would sell it all to the best bidder; we might sell in this way——

Mr. TINCHER (interposing). Well, I want to know who you really do sell to.

Mr. REYNOLDS. Well, recently 90 per cent of the country stuff we have sold to Ballard of Louisville.

Mr. TINCHER. You ship them the wheat?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. You know what they do with it, don't you?

Mr. REYNOLDS. Yes, sir; they are millers and they grind it.

Mr. TINCHER. As a matter of fact the miller always pays for the wheat, doesn't he? No board of trade ever pays for any wheat, does it?

Mr. REYNOLDS. Well, if it were Forble & Co. that we were selling to, they are not millers——

Mr. TINCHER (interposing). They are exporters.

Mr. REYNOLDS. They have probably sold that wheat or bought it for export.

Mr. TINCHER. And the exporter pays for it?

Mr. REYNOLDS. Yes, sir; the exporter pays for it if it goes abroad.

Mr. MCLAUGHLIN of Michigan. The exporter does not pay you?

Mr. TINCHER. He pays Forble & Co.

Mr. REYNOLDS. If I sell to Mr. Forble, who is the agent for the exporter, I draw a draft on him and he attends to all of the details and collects for the stuff on arrival.

Mr. TINCHER. What I have in mind, and I believe you will agree with me, is that the board of trade man trading in options pays for no wheat.

Mr. REYNOLDS. Well now, let us take Rosenbaum Bros.——

Mr. TINCHER (interposing). Rosenbaum Bros. are in Buffalo?

Mr. REYNOLDS. No, sir; in Chicago. Suppose I have sold five carloads of wheat to Rosenbaum Bros.——

Mr. TINCHER (interposing). Are they commission men?

Mr. REYNOLDS. I will try to cover the scope of Rosenbaum Bros. They act as commission men. They own and operate large elevators——

Mr. TINCHER (interposing). Let me ask you a question right there: Do you know whether they actually deal in options at all or not?

Mr. REYNOLDS. Yes, sir; I know that they do. I am coming to that. They will take an order or execute an option all at the same time. A great many more firms do the same thing.

Mr. TINCHER. You know that this outfit in Chicago deals in options?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. Do you know whether the Ballard Milling Co. in Louisville deals in options or not?

Mr. REYNOLDS. Let us understand what we mean by options.

Mr. TINCHER. Whether they buy or sell options.

Mr. REYNOLDS. I know as a matter of fact that Ballard does sell against his wheat all that he buys from me. They are persistent hedgers. They own it sometimes and——

Mr. TINCHER (interposing). Do you know whether they sell options or sell for export?

Mr. REYNOLDS. No; but they sell options. At this time of year they would buy wheat from me and sell in May against it.

Mr. TINCHER. Let us see what they do with that wheat. They grind it?

Mr. REYNOLDS. Yes.

Mr. TINCHER. They know that they are going to grind it and sell the flour?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. And in addition to doing that in the transaction of their business they also go and sell next May's wheat.

Mr. REYNOLDS. Yes, sir. Maybe I can make that a little plainer. When they buy wheat they sell May. That fixes the price; they mill wheat on the basis of their May sale, so as to get the profit. Suppose they buy 10,000 bushels of wheat to-day, a week from to-day they sell flour from it, supposedly made from that wheat, and then next week they take in their hedge. I know definitely how millers do that.

Mr. TINCHER. Do you know whether they also sell flour in advance?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. Then they have a double hedge.

Mr. REYNOLDS. No; the same hedge acts. Suppose they buy wheat from me to-day at $1.50 a bushel, and sell it for May delivery at $1.72, as it was yesterday, I think, or whatever it was. Now, then, suppose that to-day, while they are buying wheat, they have sold no flour at all, but that they have bought 1,000 bushels of wheat from customers. A week from to-day they may have orders for flour representing 100,000 bushels of wheat. That flour may be sold for February delivery. They immediately, or this is the general custom, buy in so much of their May option, because the transaction would be completed and their profit is assured.

Mr. TINCHER. Do you know whether this milling company that you are selling wheat to in Louisville has an attitude and what their attitude is as to doing away with trading in options?

Mr. REYNOLDS. I have not talked with them recently. I know they have always claimed it would be impossible for them to carry on their business without hedging. That is just offhand statement.

Mr. TINCHER. Do you know how many bushels of wheat were sold in Chicago this year before a bushel of it was harvested?

Mr. REYNOLDS. No, sir; I have no idea.

Mr. TINCHER. Well, that is information very easy to obtain.

Mr. REYNOLDS. No, sir; I do not know.

Mr. TINCHER. It is said that every bushel of wheat, before being threshed, exchanged hands 14 times this year.

Mr. REYNOLDS. I think that would be low.

Mr. MCKINLEY. I heard it was 40 times.

Mr. TINCHER. No; this was before it was ever threshed. Nobody had bought any of that wheat from any farmer, or paid for it, and it was before it was ever threshed.

Mr. REYNOLDS. No, sir; certainly they had not paid for it, and they do not pay for it until they get it.

Mr. TINCHER. Do you think that buying and selling every bushel of wheat that the farmer raises 14 times before it is threshed, and not paying the farmers for it, would do the farmers any good?

Mr. REYNOLDS. I do not know.

Mr. TINCHER. That is the object of the inquiry.

Mr. REYNOLDS. I wish somebody would tell me.

Mr. TINCHER. We will give you definite information on that line when we get through with these hearings.

Mr. REYNOLDS. All right.

Mr. TINCHER. Now, the next proposition I want to talk to you about is this: You have suggested the possibility that if it were not for the Board of Trade or the trading in options, a certain clique of men might get together and buy the visible supply of wheat and corner wheat, perhaps buying 30,000,000 bushels.

Mr. REYNOLDS. I suggest that that is possible.

Mr. TINCHER. Tell this committee how in the world the grain gamblers would prevent that in any way, or affect it in any way, if anyone wanted to do that.

Mr. REYNOLDS. Well, let us just suppose for a moment that nobody could trade in grain except as a cash transaction, that they had the grain. Now, just let us take that as the basis from which to start our argument. That would cut out any possibility, or all possibility, of all other dealings; I mean all option trading, or future selling, because people who did not have the grain could not sell it. It is possible to conceive a situation by which the Armour Grain Co., who are big enough to do it, could buy 30,000,000 bushels of wheat, and get the wheat, and hold it. They could begin in July——

Mr. TINCHER (interposing). They may have bought that much this morning and have not paid for it.

Mr. REYNOLDS. Well, they could buy that much.

Mr. TINCHER. They may have done that this very morning.

Mr. REYNOLDS. Well, I would suggest that as rather a high figure, for Armour to have bought 30,000,000 to-day. But it can be conceived that they could begin in July to put away cash wheat, and that by the 1st of June might own 30,000,000. They could buy that much and put it in their elevators and they could own 30,000,000 bushels of grain, and then on the 1st of June the country would wake up and find that that condition existed.

Now, Mr. McLaughlin I believe referred to the visible grain supply, the grain out of the farmers' hands and not yet consumed. You must admit that that would be a condition that is hardly conceivable if everybody is trading; it would be liable to swamp Armour.

Mr. TINCHER. If trading was going on how would it swamp Armour?

Mr. REYNOLDS. Suppose there are 200,000,000 bushels of wheat that have been traded in to be delivered, and in order to hold the price up Mr. Armour has sold a lot of options——

Mr. TINCHER (interposing). He will not do that if he is paying cash, buying cash grain, and putting it into his elevators.

Mr. REYNOLDS. He can do that, too. At this point will you allow me to refer back to the Joe Leiter grain deal, of fame? He concluded to corner the market, and he went in with unlimited funds, and he would have cornered the market if they had given him a square Chicago deal; that is, if they had not delivered off-grade stuff.

Mr. TINCHER. You do not believe any man will get a square deal in Chicago, do you?

Mr. REYNOLDS. Well, Mr. Leiter went along and took deliveries, and he borrowed money from the banks and from his dad, and from everybody, and he kept taking this wheat. Here, on the other hand, were people who had wheat sold and were millions of bushels behind, and they bestirred themselves to give Mr. Leiter wheat, and more wheat and still more wheat; more than Mr. Leiter could pay for, and broke the market. They did that rather than deliver wheat to Leiter on his high prices. They even sent wheat to Leiter by express and in every way until the market was smashed, and then wheat went down. I am not indorsing that, of course, but merely explaining the situation. Now, if nobody could have sold Mr. Leiter wheat except those who actually had it, and they had not bestirred themselves to get more to deliver to Mr. Leiter, he would have cornered the market, and then he would have put the price up to the consumer, to, perhaps, $4 a bushel, because it would have been absolutely impossible for the few who owned wheat to deliver to him too much. But when everybody could sell Mr. Leiter wheat and was bound to do it in self-protection, he could not take it all.

Mr. TINCHER. Could sell him wheat that they did not have? Your idea is that wheat is one product; for instance, that in order to have a stable market people must have permission to sell when they have not got it, and to buy it when they do not expect to receive it or pay for it?

Mr. REYNOLDS. I do not know about that. I say we can work that in fairly safe fashion in the country now; and I am not speaking as to whether the Chicago Board of Trade can sit very much longer or not, though they have managed to get along pretty well so far; but I say in the country, where I must make a market for my farmer friends, the present plan is safer to me than one I know not of. I am afraid of some new plan.

Mr. TINCHER. I think it is a subject concerning which there is a lot of misinformation. For instance, in my State, in Wichita, in the Sedgewick Building, there are a lot of people; it is almost filled with people who deal in grain, and only a small proportion of them deal in futures. It does not mean that speculating in grain, actually buying and selling grain, as you call it, if you stop this gambling by way of selling it 14 times before a bushel is thrashed, is not a different proposition.

Mr. REYNOLDS. No, sir; I do not think so.

Mr. TINCHER. Have you ever examined the bill that I introduced and which is before this committee at this time?

Mr. REYNOLDS. I have read all of them, and at sight I might be able to recall the principal features of each bill.

Mr. TINCHER. There is no bill, I think, pending before the committee that the author thought would affect your business at all the way you have described it.

Mr. REYNOLDS. If it were possible to arrange a tax that could apply to the purely speculative part of it it might meet the situation.

Mr. TINCHER. Haven't we got to start with this promise, that we all know and agree that it is absolutely wrong, to buy and sell the farmers' product 14 times before they harvest it; and don't we all agree to this, that when the consumer and producer of wheat are

supporting more people than are engaged in the production of wheat, and in an entirely different style and way, that there is something wrong with the system?

Mr. REYNOLDS. If I may be pardoned for the expression of a personal opinion about the matter I will say that I think the great danger to-day is that we are likely to run lopsided in considering the interest of the producer, representing 30,000,000 of the people, as against the interest of the consumer, representing 75,000,000 or 80,000,000 of people who have to buy and eat the product. I am also taking those people into consideration.

Mr. TINCHER. Do you think it to the interest of 75,000,000 or 80,000,000 of people who eat, and to the 30,000,000 of people who produce the product, to pick out 2,000,000 people who live like lords, and ride in high-powered automobiles, and live in great residences?

Mr. REYNOLDS. I do not think anything that gives one class an influence over another is proper. But I think there is possibly a grave error in trying to get rid of one fault by introducing another fault.

Mr. TINCHER. Well, people engaged in making laws have that trouble, don't they, every time it is proposed to enact a law? There is always that clamor—for heaven's sake don't do that or you will disturb conditions. And a good many times existing conditions have been disturbed to the benefit of the people.

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. Somebody has written me a letter that the farmer has to pay an additional freight rate of 5 cents a bushel over what was the situation in prewar times. On the other hand, the change in the price of the farmers' wheat has been as much as 10 cents a day on the Chicago market.

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. They did that last summer.

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. As much as that per day?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. Really the difference in the present price of wheat as affected by the raise in the wages of railroad men, and which necessitated a raise in freight rates, is a small item when compared with the fluctuations in the price of the farmers' product on the Chicago exchange.

Mr. REYNOLDS. We have just passed through a period in which the Government had control of wheat and when all the laws of supply and demand were temporarily suspended, and all of the regulations under which we had ever operated were suspended.

Mr. TINCHER. Do you mean that the Government Grain Corporation absolutely suspended the law of supply and demand?

Mr. REYNOLDS. Absolutely, so far as the normal channels were concerned.

Mr. TINCHER. Did not the law of supply and demand affect the price of wheat during the existence of the grain corporation?

Mr. REYNOLDS. Yes; it did, to the extent that wheat advanced beyond the fixed price.

Mr. TINCHER. And the board of trade, or I will not say the board of trade, but to distinguish between boards of trade and chambers

of commerce and the grain exchange, on which men are buying and selling—the boards of trade continued functioning.

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. And while they were not dealing in futures at all on the exchange you could still sell your grain.

Mr. REYNOLDS. Yes, sir; but you must remember that we had the strong arm of the Government to set up a point below which you could not go in buying wheat.

Mr. TINCHER. Besides that you had your 15 bids in your office when you went there each morning.

Mr. REYNOLDS. No; there was a long time when we did not have any bids at all. During the first year of grain control we had no bids at all because the Government controlled all wheat and would simply telegraph us to ship wheat so and so.

Mr. TINCHER. But you had a market for your wheat, and the reason you did not have any bids was because of the condition that existed.

Mr. REYNOLDS. We had to ship under the orders of the Government.

Mr. TINCHER. During the first year of grain control.

Mr. REYNOLDS. Yes; during the first year of the grain control.

Mr. TINCHER. Isn't it true that during the first year of grain control the reason you did not have bids from millers was that they had to place orders with the Grain Corporation?

Mr. REYNOLDS. They had to ship wherever the Government said ship.

Mr. TINCHER. And the market was better than ever?

Mr. REYNOLDS. All had to go to the Government.

Mr. TINCHER. And the millers had to close down early in the year because of shortage of wheat?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. As I understand you, you think this committee, after hearing all the witnesses, if it can devise a scheme to get rid of the vicious gambling and yet not destroy legitimate speculation in grain you are for that proposition?

Mr. REYNOLDS. You will all wear jewels if you can ever do that.

Mr. TINCHER. Will we ever do it if we do not try?

Mr. REYNOLDS. Oh, I agree with you on that. I have wondered sometimes whether control of the whole proposition, wiping out everything that we have for one year, could produce better results. I do not know what it would do.

Mr. TINCHER. Wouldn't it be better to try it this way: Not wipe out everything, but try to stop gambling. While you do not produce grain and you are purely a speculator, yet you are a legitimate speculator, so let you go on and do business.

Mr. REYNOLDS. No; I am not a speculator in any way. First of all, we are simply merchandising in grain. We take the grain in our houses in wagon lots, and make up carload lots and sell to the market.

Mr. TINCHER. I understand that the only possible argument that could be deduced from your whole testimony in favor of a continuation of trading in options would be that those traders, as philanthropists, might prevent some men from buying up the visible supply of wheat and having a corner on it.

Mr. REYNOLDS. No——

Mr. TINCHER (interposing). But I do not understand yet how you conceive that they could do that.

Mr. REYNOLDS. If you owned all the visible supply of wheat to-day your human nature is such that you will want to get all you can out of it. If you had all of it at this time—or I will not say you, but the average man, would be in the position to say, and would naturally say, that the starving community would have to pay your price.

Mr. TINCHER. But if I had the money to buy all of it I would not have to go on the Chicago exchange in order to buy cash wheat.

Mr. REYNOLDS. No, sir.

Mr. TINCHER. How they would prevent me from doing it, or how they would affect me in the transaction, or what influence they could bring to bear on me to affect the transaction, is not clear to me at all.

Mr. REYNOLDS. If there is any point that I can make clearer as I see it I will be glad to attempt to do so. I think there is great danger in anyone owning all the food supplies of the people at any time; very grave danger indeed. I only want to make two points: I do not want to go beyond my own experience in business, but first of all I feel that I must have a stable market all the time on which to buy grain. I have this advice every day in the year. I do not believe I would get it unless I would get bids. The next thing is, as I conceive it, I think it would be dangerous to have men who were able to pay cash, or only men who are able to pay cash, and who would pay for it, to be allowed to buy grain and sell it for future delivery.

Mr. MCLAUGHLIN of Michigan. Will you make a little clearer one of your answers to Mr. Tincher: During the time the Grain Corporation was functioning were you carrying on that kind of business that you have described; were you receiving and answering those 15 letters a day?

Mr. REYNOLDS. First I will say, in order that I will not be misunderstood, because somebody may know and fling it at me, I was one of the advisory board of the Grain Corporation, and of course knew what was being done all the time. But the first year of grain control the Grain Corporation controlled absolutely the sale of all wheat. We could not ship a car of wheat any place except we were ordered so to do or received permission from the Grain Corporation to do it.

Mr. MCLAUGHLIN of Michigan. And the price was fixed?

Mr. REYNOLDS. They fixed the price. But let me qualify that a little; I say they fixed the price—if we found any one who would buy grain above the fixed price, and we notified the Grain Corporation, and they allowed it to be sold, but probably they would not do it, that sale might be made. They tried to fix an ironclad price the first year. The second year the Government went out of the price-fixing business themselves, except to maintain a minimum price, and allowed everybody to bid for grain as they wanted to bid—cash grain. We were able that year to sell grain as high as 40 cents a bushel above the price fixed by the Government.

Mr. TINCHER. During the second year of the existence of the Grain Corporation you had bids?

Mr. REYNOLDS. Yes, sir; we had bids the second year, and might sell at any place we wanted to, but had to report to the Government, who bought it and at what price.

Mr. PURNELL. There is one thought I would like to pursue: You fixed the price to the producer primarily upon what you could sell to those 14 people that day?

Mr. REYNOLDS. Yes, sir.

Mr. PURNELL. That, of course, would hold good to the small elevator man out in my county.

Mr. REYNOLDS. Yes, sir.

Mr. PURNELL. Suppose you take away from that small elevator man the right to go to the telephone or to telegraph and sell in Chicago just what he buys that day, and do away with hedging, do away with future trading, what would be the effect on the producer?

Mr. REYNOLDS. Well, now, gentlemen, to start with——

Mr. PURNELL (interposing). Maybe I do not make myself clear. The thought I have in mind is, would not that back up grain on the farmer, or would it?

Mr. REYNOLDS. I do not believe it would have any effect along that line, unless it would be from lack of information. The farmer might conclude it would be a good thing to carry grain. I do not know.

Mr. PURNELL. My idea is that maybe any elevator man might take grain until he actually had a carload and ship it in and the ultimate result might be to back up corn, wheat, or oats on the farm until there was an actual demand for it.

Mr. REYNOLDS. That might happen. It would vary as much, I think, as human nature would vary in the person of the elevator man in the country. The psychological effect, I think, would be this: If I do not know what I can sell grain for I naturally want to buy at as low a price as I can in order to protect myself. I do not want you to get the idea that because we fix the price we always fix it as low as we want to. The competition of the cooperative organizations might rout us out of business at any time if we tried to do that. My competitor a few miles away could show me up in a bad light if he should pay 3 or 4 cents a bushel more than I do. Competition controls that. But if we do not have these bids isn't it fair to assume that we will buy as low as we can? We might pay a higher price sometimes, but we wouldn't do it very often.

Mr. TINCHER. The small elevator man in Mr. Purnell's home county does not sell any options, does he?

Mr. REYNOLDS. He is a hard proposition. He digs all the way up to the top.

Mr. TINCHER. He does not sell options, does he?

Mr. REYNOLDS. I think you have one who does pretty strongly.

Mr. TINCHER. In Mr. Purnell's home county there is not a man today buying and selling wheat who is in the elevator business, that sells options in Chicago, is there? Does not the man in his county who sells any wheat get paid for it, that goes to millers?

Mr. REYNOLDS. Mr. Purnell's home town has a strong competitor of ours. We have an elevator 6 miles from him, and he is one of the hardest competitors I know of. I do not know how he fixes the price, whether Mr. Purnell helps him or not, but he pays pretty strong prices at times.

Gentlemen of the committee, I have drawn this out longer than I had expected, though it is because a good many questions have been asked. Is there anything else?

The CHAIRMAN. Mr. Hulings, do you wish to ask any questions?

Mr. HULINGS. Do you know it is a fact that in almost every town in the whole country you will find a place where there is a bunch of fellows like those you referred to, sitting around and watching a blackboard, in a bucket shop. I want to ask you whether you believe that those people who are sitting there simply gambling on the prices of these food products perform any valuable function in the trade.

Mr. REYNOLDS. I would like just to complete my testimony as chairman of the legislative committee right on that point, and will quote from a personal experience. I have never believed that the ticker and the blackboard in the small country towns were a desirable proposition.

Mr. TINCHER. Why deprive the small country town of it and give it to the larger town?

Mr. REYNOLDS. Oh, well, in the large towns, where you have collected the other brigands and thugs maybe it is a different thing. But in our perfectly respectable villages and towns in my country I have doubted very seriously the need of the function that they perform.

Mr. HULINGS. Well, do you think that they really perform any valuable function in the trade at all?

Mr. REYNOLDS. It has never been apparent to me.

Mr. HULINGS. If that is true, and I think it will be generally admitted that these bucket shops are a nuisance and a great injury to the country, isn't there any way by which that kind of thing can be stopped, and isn't that what the farmers are kicking about more than anything else?

Mr. REYNOLDS. I have never been able to see any reason why the speculator who wants quick action, wants to get action upon the blackboard, should have the direct wire to carry his desires to the central point to get them executed; why he should have that advantage over me when I want to sell a thousand bushels of cash grain. I am speaking from my own personal observation. I have never been able to see why that through service, instanter, Johnny-on-the-spot, we-have-sold-at-69-get-quick-action business should go on, while Reynolds has to send his over the commercial wire, and during the past few years be anywhere from a few minutes to six days to get a response, and all the while the other fellw, the speculator who has a direct wire, is enabled to get quick action.

The CHAIRMAN. Can not Reynolds use the same wire the other fellow does?

Mr. REYNOLDS. Well, if I am selling cash grain I do not go to the village blackboard to sell my cash grain. I go to the Western Union or the Postal Telegraph office and file my message to be sent to the broker. Five weeks ago one morning we undertook to accept on 15 cars of corn, and on account of slow telegraph service our message did not get through until 20 minutes past the opening, and then corn was down 5 cents a bushel, and it did not go back any more, and we lost 5 cents a bushel on the corn. Therefore I say I have for a long time doubted the real wisdom of a few direct wires

to headquarters and the seller of cash stuff having to send his wires over the commercial line.

Mr. McLAUGHLIN of Nebraska. We agree with you, Mr. Reynolds, and it is the other fellow that we are after.

Mr. TINCHER. There is no use of giving the big outfit at Chicago any license.

Mr. REYNOLDS. I am here trying to give this committee any service I can.

Mr. McLAUGHLIN of Michigan. You spoke of those elevator men who find it necessary to wire or telephone somebody to see if that somebody will buy or sell.

Mr. REYNOLDS. Yes, sir. If I am taking advantage of my card bids I must do it by telegraph. If I want to go around the corner to a bucket shop and simply say: Sell for future, and hedge it in that way, all right. But where I am selling cash grain I make out my telegram and send it in the regular commercial way.

Mr. McLAUGHLIN of Michigan. You have to find somebody who is willing to take the other end of the transaction?

Mr. REYNOLDS. Yes, sir.

Mr. HULINGS. You never sell options and you never sell puts or calls. You sell futures?

Mr. REYNOLDS. Well, in ninety-nine cases out of one hundred I sell actual grain on hand for shipment.

Mr. HULINGS. But if you make a hedge—and you say you have done that?

Mr. REYNOLDS. Yes, sir.

Mr. HULINGS. If you do make a hedge, you do not buy a put but you sell a future.

Mr. REYNOLDS. Yes, sir.

Mr. HULINGS. And it implies an actual delivery of the grain?

Mr. REYNOLDS. Yes, sir. Do you know there is quite a difference between an option and a put or call? I can go in and for a stipulated amount of money ask Mr. Haugen how much he will charge me to furnish 10,000 bushels of wheat to carry. He will say $10. All right, I have paid my $10, and if the market goes up and I want the wheat he must furnish it. That is a call. On the other hand, if I say, "Mr. Haugen, how much will you charge me to put 500 bushels of wheat to-morrow?" He may say $500. And if to-morrow the market is lower I put the wheat over to Mr. Haugen and he has the $500.

Mr. TINCHER. According to the laws of the State of Indiana the bucket shop is outlawed, isn't it?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. The Chicago Board of Trade operates bucket shops on the ground that they are doing an interstate business and not conflicting with the business of the State of Indiana?

Mr. REYNOLDS. Yes, sir.

Mr. TINCHER. Are you in favor of that law, the one that you now have in the State of Indiana?

Mr. REYNOLDS. We are not even conscious of its operation.

Mr. TINCHER. It can not be effective, because the Chicago Board of Trade operates interstate.

Mr. REYNOLDS. What the Indiana law contemplates is to prevent the bucket shop. There is quite a difference between the bucket shop and selling options.

Mr. TINCHER. Well, the biggest bucket shop in the world is in Chicago.

Mr. REYNOLDS. Really, what the Indiana law does is to prevent bucket shops. I look at a blackboard and see wheat is 59 and I say sell 10,000 bushels and it is sold. Under the law if I go in and say, sell for me 10,000 bushels of wheat at 59¼, they wire Chicago, and if they find a taker it is sold, otherwise not. That is the difference.

Mr. TINCHER. Every bushel of wheat was sold 14 times before it was thrashed this year. That was sold in Chicago instead of down in your little town in Indiana; and that is the bucket shop I am after.

Mr. REYNOLDS. I condemn unnecessary selling as much as you do.

Mr. TINCHER. All right. We are agreed.

Mr. REYNOLDS. Anything more?

The CHAIRMAN. Mr. Voigt, have you any questions?

Mr. VOIGT. Do you get bids every business day in the year?

Mr. REYNOLDS. Yes, sir.

Mr. VOIGT. How long are those bids open for acceptance?

Mr. REYNOLDS. You know our day closes now at 1 o'clock in the afternoon or 2 o'clock, and by that time we get in our telegraphic reports. Let us say that we are getting ready to bid to-morrow. First of all, we are likely to get some telegraphic bids this afternoon—not for the opening of the market at Chicago at 9.30 o'clock and down east it is 10.30, because the Chicago market controls.

Now, maybe I will get half a dozen telegraphic bids for wheat or corn, not until 9.30 to-morrow morning, acceptance to be at destination. Then the mail will bring me in bids that have been put in at Indianapolis possibly. I get New York bids by wire instead of by card, as I told you. I have my bids all in, and I must get my bids in before the opening of the market, presuming that if I sell 10,000 bushels of wheat I will have the bids in complete before the market opens.

Mr. VOIGT. Is it your custom to accept one of those bids you get before the opening of the market?

Mr. REYNOLDS. Not always. It quite often happens when I get telegraphic bids in the afternoon that I feel I ought to sell on the counter at a higher price. It is always open barter.

Mr. VOIGT. I am asking you these questions to determine why it is necessary for you to hedge if you have the market every day.

Mr. REYNOLDS. I do not hedge. I sell cash stuff. But I say that people who make bids to me claim they can not make those bids unless they can hedge.

Mr. VOIGT. You think that hedging ought to be permitted to the other fellow?

Mr. REYNOLDS. I get the benefit of the hedging because the other fellow says he can not bid unless he does hedge.

Mr. HUTCHINSON. Are you a member of any exchange?

Mr. REYNOLDS. No, sir. We have the privilege on the Buffalo Corn Exchange, which means that we can ship corn to Buffalo and reship it out of Buffalo before it arrives there to one of the customers. But we have no membership.

Mr. HUTCHINSON. Do you know anything about the rules and regulations of the exchanges?

Mr. REYNOLDS. I think I do. I think I know all of them.

Mr. HUTCHINSON. Do you ever sell, yourself, for delivery in future months?

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. For instance, if I wanted five cars a week for 10 months, would you sell that way?

Mr. REYNOLDS. Yes; we often do that.

Mr. HUTCHINSON. How do you protect yourself?

Mr. REYNOLDS. Ordinarily that is wheat that we have on hand or near by. If wheat is moving rapidly we may get in 50,000 bushels of wheat a day in our elevators. If we get 50,000 bushels to-day it is fairly to be assumed we will get at least 30,000 bushels to-morrow. If I have an order for 40,000 bushels of wheat I will sell, and it is fairly to be assumed I will get it in to-morrow. The reason I may have sold wheat for May is this, that I can get all it cost me to carry it and a little more. The cost of carrying this, interest and storage, is about 3 cents a bushel. I might have an empty elevator out here, and, as it is worth 3 cents a bushel to carry it until May, if I do not carry the grain I get nothing out of the use of the elevator. If I carry the grain I do get that.

Mr. HUTCHINSON. Most people in the business do that by hedging, don't they?

Mr. REYNOLDS. Yes, sir; by hedging. We have hedged. There have been times we have hedged, just as the gentleman said on yesterday, because cash conditions were not such that we could sell, and because we could sell an option at a higher price than we could sell for cash delivery. That happens, but it is very rare that we hedge. I have not had but one hedging deal for over a year.

Mr. HUTCHINSON. It is frequent that hedging charges are put on the option?

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. For instance, May corn is five cents a bushel higher than cash corn.

Mr. REYNOLDS. Yes, sir. Often corn for the middle of the month is five or six cents higher than for cash. That shows that somebody expects a pinch in corn at the end of the month and the price will be higher.

Mr. HUTCHINSON. The board of trade does not do any buying or selling at all, does it?

Mr. REYNOLDS. A board of trade is only an aggregation of members, and each member acts on his own volition within the rules prescribed by the board.

Mr. HUTCHINSON. Suppose I have 10,000 bushels of May corn, or that I buy that number of bushels from a member of an exchange. Does he have to deliver that corn to me sometime in May?

Mr. REYNOLDS. You are buying?

Mr. HUTCHINSON. Yes.

Mr. REYNOLDS. You have to be prepared to accept that corn and to pay cash for it on the last day of the month in which the sale is made.

Mr. HUTCHINSON. You can demand it every time.

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. Getting back to bucket shops, a great many of these bucket shops are not responsible at all.

Mr. REYNOLDS. No, sir. Bucket shop is not exactly the right name to apply. There are very few bucket shops now. These are commission men, and if the trade is based on a legitimate deal, according to the rules, the buyer at the other end is responsible, and the mere operator is responsible for the margin you may put up with him. He will demand a margin from you. If you sell 10,000 bushels of wheat, he will probably demand a margin of $1,000, and if he is dishonest he pockets your $1,000 and, like the farmer-manager spoken of yesterday, decamps with your money. But if he passes the order in to the board of trade you are protected to the extent of the buyer being able to pay, plus the deposit he has made in the shape of his membership, which represents, in Chicago, about $10,000. I think that is what they are worth now.

Mr. HUTCHINSON. When a man joins an exchange like that he is supposed to be reliable.

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. And must live up to his contracts.

Mr. REYNOLDS. Yes, sir; usually they do. There have been very few failures to pay within the last number of years.

Mr. HUTCHINSON. And if they do not they are expelled from the exchange.

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. The exchange is not at fault for any of these gambling transactions?

Mr. REYNOLDS. No, sir; the exchange itself is not. It is just an assemblage of men.

Mr. HUTCHINSON. Well, we are trying to pass legislation to regulate that. That is all I wish to add.

Mr. PURNELL. The small elevator man buys frequently from the producer, who needs money before even his crop is raised?

Mr. REYNOLDS. Oh, yes.

Mr. PURNELL. How does the average country elevator man protect himself against that purchase?

Mr. REYNOLDS. We quite often have $150,000 or $200,000 out to farmers, particularly on their summer crop of wheat, which is the short time for money, being in May and June. They may come in and sell us their grain.

Mr. PURNELL. Do they sell it to you at a fixed price?

Mr. REYNOLDS. There are two ways; ordinarily we buy it at the price at time of delivery and advance them money. It is a contract that we enter into and we advance them money, and they pay us interest on the money advanced, and at the time of sale they get the contract price. There are a large number of farmers who are speculators and want to sell at a fixed price. We enter into a contract with them at a fixed price, and then we sell.

Mr. HUTCHINSON. In reference to bucket shops, Armour has a branch office down here at Washington. That is just as good as a matter of trading as though you were at the Chicago Board of Trade?

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. But the fellow who starts a bucket shop is not responsible at all.

Mr. REYNOLDS. No; but a man who is able to buy a membership on the Chicago Board of Trade, and to lease a wire from a telegraph

company, can go out in a city where it is not prohibited and open a so-called bucket shop, into which you can walk, say in at this door here, and find on a blackboard the price and say: Book me so much. That man must have something. But in case of another man, he may have no communication with Chicago. That is a bucket shop pure and simple and ought not to exist anywhere in the world.

Mr. HULINGS. That is where an operator simply buckets an order. He takes an order and buckets it and the other fellow pays it.

Mr. REYNOLDS. Yes, sir. I may come in to-day and buy and to-morrow they close out, and that is all there is to it.

The CHAIRMAN. Is he a member of a board of trade?

Mr. REYNOLDS. Well, we can conceive of a condition where he is not a member. But as a means of protection he usually has been a member, and as soon as the transaction is closed he hedges in Chicago. He is a man who has dealt and he wants to hedge it.

The CHAIRMAN. As a general thing are they operators on a board of trade?

Mr. REYNOLDS. Oh, yes, sir. I do not know to-day of any right out plain bucket shops anywhere. We spoke of them as bucket shops in the 80's and 90's, where they did not have any connections at all. I have known a bucket shop with wires in the room where the blackboard was, but that only led into the next room and never did go out anywhere. I know of nothing like that now.

Mr. HUTCHINSON. Suppose I buy corn to be delivered at my place, and if I buy from Chicago it must be delivered on my demand?

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. That is the value of the exchange.

Mr. REYNOLDS. Yes, sir.

Mr. HUTCHINSON. Suppose I buy from somebody who is not a member of an exchange, I may not get my corn.

Mr. REYNOLDS. You would not have anything but that man's promise about it. In the other way, if a man does not live up to his contract he is expelled from the exchange. Exchanges have a good many elements of honesty and protection about them that are overlooked. I do not see how we could carry on this great complex grain business without them.

Mr. HUTCHINSON. Do you suppose that a mill grinding 250,000 bushels of wheat a day could run for any length of time without exchanges?

Mr. REYNOLDS. Well, I do not know of any miller but what hedges.

Mr. HUTCHINSON. What is that?

Mr. REYNOLDS. I do not know of any millers who do not hedge. They always do that.

Mr. HUTCHINSON. They could not run very long without doing that.

Mr. REYNOLDS. No, sir.

The CHAIRMAN. You have given this matter a good deal of thought. In your opinion is it possible to draft a bill that might legalize hedging—and I understood that you were for hedging—and yet prohibit gambling or speculation?

Mr. REYNOLDS. If any way could possibly be arrived at to eliminate wild-cat speculation, if it is possible to do that, it certainly is desirable. And the man who would advocate otherwise it seems to me would be a knave, because it is a useless function, and I can not see

where it serves anybody any more than a mere game of poker played across the table.

Mr. McKINLEY. I do not think you answered the Chairman's question. He asked you if you could draft a bill that would stop it.

The CHAIRMAN. You have given this matter much thought. Do you believe it possible to draft a bill that will permit hedging to continue, to sift out the good things and prevent the others?

Mr. REYNOLDS. I do not believe it is. There were two dozen of us banded together 10 or 12 years ago, and we made up our minds if possible to spring on the public a surprise in the shape of a bill that would meet the situation, and that we would get the benefit of it. We very carefully considered the matter, but we have finally given up any discussion of a plan, frankly admitting that we do not see what can safely be done. To determine that a man will be assessed 10 per cent would call for policing that would cost too much for the Government to undertake it.

Mr. McLAUGHLIN of Michigan. Is there any rule that would require delivery at the end of the transaction if delivery were demanded?

Mr. REYNOLDS. Do you mean that I must carry out every contract I make, regardless of what may happen?

Mr. McLAUGHLIN of Michigan. Yes.

Mr. REYNOLDS. Well, in attempting to answer let us take a concrete case. Let us suppose that I sell 10,000 bushels of wheat for May delivery, and that I either have the wheat or have it in hand, but in the meantime my elevator burns down; what am I to do?

Mr. McLAUGHLIN of Michigan. You could get the wheat somewhere else.

Mr. REYNOLDS. Then I must attempt to go somewhere and buy that wheat.

Mr. HUTCHINSON. You sell on grade, don't you?

Mr. REYNOLDS. Yes, sir; on grade or sample. If we have wheat on hand and it has any inherent defects, or if it is of good quality, we sell it on sample and get the benefit of it.

Mr. McLAUGHLIN of Michigan. Is delivery permitted of a different grade than that contracted for?

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. Can you give the committee the number of grades deliverable on contract?

Mr. REYNOLDS. Yes, sir.

Mr. REYNOLDS. Confine yourself to the Chicago market and tell us.

Mr. REYNOLDS. On the Chicago market if you sell on option you can deliver five different grades, which fixes the market difference.

The CHAIRMAN. Do you state that that is the limit of the number of grades deliverable on the contract?

Mr. REYNOLDS. Well, it is limited to five, I think.

The CHAIRMAN. I want to know. There is a great deal of contention about that. Some of use have heard it said that there are 34 grades, and some say 24 grades, and some say 5 grades, and some say 3 grades. I would like this committee to know. My understanding is that you can deliver any grade; that is, I mean two or three grades up or down. There are three classes and nine grades in each class, as

I understand it, and you can deliver any of them on a contract, as I understand it.

Mr. REYNOLDS. I would like Mr. Quinn to explain that.

Mr. QUINN. I think there are about 20 grades deliverable on a contract. Mr. Gates is here and he can tell you exactly.

The CHAIRMAN. I want the committee to know exactly.

Mr. QUINN. I think the purpose of that rule was to prevent corners.

The CHAIRMAN. I am not talking now about corners but the number of grades deliverable on a contract, whether 5 or 50. We ought to know, and there ought to be some limit somewhere. As you will recall, when we had our hearings before, the complaints of millers and spinners were that instead of getting the grade contracted for something else was delivered. The spinner wants to get the grade of cotton he contracted for, and the miller wants to get the grade of wheat he contracted for. I think the most of the complaints come from that sort of thing.

Mr. QUINN. Of course, the lower grades are deliverable only at a discount.

The CHAIRMAN. I am thinking also of the discount. That was brought out in our hearings. We know something about manipulation of grades. Can you state the difference?

Mr. REYNOLDS. No, sir; I can not state that. The grain grades act, in which you had a large hand yourself, has proven of great benefit, and yet it does not fully control on account of war conditions, or has not done so, although I am inclined to believe that the grain grades act has already improved the situation to the farmer and to everybody.

The CHAIRMAN. As I understand it the standardization act has very materially reduced the manipulation of grades.

Mr. REYNOLDS. Yes, sir. I have no apprehension of trouble with grades any more like I used to have. It used to be a big problem, but I do not have those problems any more.

The CHAIRMAN. Contracts are made now subject to Federal inspection?

Mr. REYNOLDS. Yes, sir. Sometimes there is a little crookedness, but such cases are very rare.

The CHAIRMAN. I understood you to say if exchanges were wiped out it would practically wipe out the grain man or cripple him very much at least.

Mr. REYNOLDS. I can not conceive how we could carry on the business if you wipe them out. Of course, there would likely be some way devised for this stuff to be moved, though I do not know how. It would take quite a while to substitute something; and in the meantime, what?

The CHAIRMAN. Live stock moves without exchanges?

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. And sales are made for future delivery of live stock as well as of grain.

Mr. REYNOLDS. Yes. But there are so many elements of difference between the two—well, I will say that I am not able to conceive of any way to handle the business without having central places to conduct the grain business similar to the exchanges. I often find now, with all the sources of information I have at my command, that

I ship grain 1,000 miles that I could better have sold 100 miles from my place.

The CHAIRMAN. The feeling in general among grain dealers in my country is that exchanges are of great value.

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. And no one has gone so far as to say it would cripple them in their business. I believe hedging is of great value to the smaller farmer and dealer. I do not understand they would cripple the business entirely.

Mr. REYNOLDS. I can not get away from that belief, Mr. Haugen. I have tried to conceive it.

Mr. DICKINSON of Iowa. I would like to ask a question or two if I may, Mr. Chairman.

The CHAIRMAN. Mr. Dickinson, the author of H. R. 14654, one of the bills, will ask some questions.

Mr. DICKINSON. If we were to preserve hedging or future sales for 60 days but for actual delivery, don't you think the exchanges would be kept intact to perform the functions you have suggested?

Mr. REYNOLDS. First I will say that I would extend the time for at least 90 days, because our periods of crop production are such that 60 days is too short. And we have transportation delays from West to East so that it takes too much time for only 60 days. They did function on cash grain for a while during the war, but it was claimed there that they always had behind them that governmental supervision that enabled them to do it. I do not know.

Mr. DICKINSON. Government restriction of wheat ended May 30.

Mr. REYNOLDS. Yes.

Mr. DICKINSON. And future trading did not begin on the exchanges until July 15. During that time there was only a variation of about 7 cents a bushel in wheat.

Mr. REYNOLDS. Yes, sir.

Mr. DICKINSON. After future trading began there was a variation of more than 30 cents a bushel in two weeks. Can you explain that situation?

Mr. REYNOLDS. Well, I can explain it probably in this way, or that situation is susceptible to the drawing of two conclusions: First of all it shaped the activity introduced into the market by the option trading—and whether for good or bad let us not discuss. It avoids everything I have said might be dangerous in not being able to deal in any way except in cash grain. Up to that time we dealt only in cash wheat. After that time we introduced elasticity into the markets, and if the markets had gone up you will see what it would have done. There might have been some condition that would have brought it up. To the consumer, if it brings wheat down 30 cents a bushel, it is a good thing; but if it goes up 30 cents a bushel, he says it is bad and the farmer says it is good. I see a danger in dealing only in cash grain. There should be elasticity. I think when they had no option trading perhaps the stuff stayed nearer commercial prices, or, I mean, a commercial basis; and as proof of this it has not gone up to the old basis since. I can not believe that the Board of Trade was wholly responsible for it. I think that knowing everything else had to stick to a normal price it was naturally lower than the war time price.

Mr. DICKINSON. Do you believe that a steady or a fluctuating market is best for producer and consumer?

Mr. REYNOLDS. A stable market.

Mr. DICKINSON. Do you believe in speculation in futures by which they speculate on 40 times the amount of actual stuff delivered is conducive to a steady market or a fluctuating market?

Mr. REYNOLDS. I have to say that I do not know. I believe that the only answer any man can give you is that he does not know, because we have not tried it.

Mr. DICKINSON. Do you believe that the Armour grain deal had a tendency to a fluctuating market when he bought wheat for Europe?

Mr. REYNOLDS. Naturally, the exportation of wheat has a tendency to advance our market more than internal trade. As long as wheat is on our own shores it is here for our consumption; as soon as it leaves our shores and we get money for it, that has a tendency to strengthen what is back.

Mr. DICKINSON. Are you acquainted with Mr. Barnes?

Mr. REYNOLDS. Oh, yes; I was on his board.

Mr. DICKINSON. Mr. Barnes said that the price of export wheat has a tendency to fix the price of wheat for local consumption.

Mr. REYNOLDS. I think that has been Mr. Barnes's idea, but I have always claimed that in normal times the export price does not fix our local price.

Mr. DICKINSON. You disagree with Mr. Barnes on that theory?

Mr. REYNOLDS. I want to qualify that this much: War time conditions may warrant Mr. Barnes saying that. But in time of peace I do not believe the export price fixes the price of domestic grain. You must remember that 82 per cent of our corn never leaves the county in which it is produced, and that 92 per cent never gets out of the State in which it is produced.

Mr. DICKINSON. Do you believe that cost of production is taken into consideration in the method by which the price of grain is fixed at the present time?

Mr. REYNOLDS. No; because I do not believe the cost of doing business at the present time has any effect at all on anything. I can not conceive it.

Mr. DICKINSON. You don't think it makes any difference whether the farmer makes money or loses money?

Mr. REYNOLDS. Oh, no; I do not go that far at all. I do say that all laws of comparative commercial values are suspended, and that you can not apply one single normal law we have learned to business at this time. That is the reason I said earlier in my statement that I believe the important thing now is time, that is the essence of the situation; and, by trying to pass laws which will not likely become effective or get into full operation or be understood before the situation naturally changes, you will not have a chance to properly try them out.

Mr. DICKINSON. It is possible under the present system for a man of large means or credit to fluctuate the market up and down by buying futures, isn't it?

Mr. REYNOLDS. I think that is accentuated for the moment by the nervous condition of the people. Everybody wants money out of

what they have got. They can rely on money, but can not rely on anything else.

Mr. DICKINSON. Wouldn't it be a good thing to limit the extent of the purchases of any one firm at any one time?

Mr. REYNOLDS. I have always believed that would have merit.

Mr. DICKINSON. Could you get this information on bids from anybody for actual delivery if future trading beyond 60 days were eliminated?

Mr. REYNOLDS. I would have to answer that in this way, that I do not know. I have no very definite information about it. But we have at the present time a state of affairs that is very unusual. The consumer—and when I speak of the man in central Virginia who buys his feedstuffs, cars of corn, he is a consumer to us—he is holding off from day to day until the last bushel is out of his granary because he thinks there are going to be lower prices. And he is justified in thinking it, because prices have been sliding for the last six months. I am afraid that state of affairs would exist to the exclusion of open bidding.

Mr. DICKINSON. The present market conditions has a tendency to centralize markets.

Mr. REYNOLDS. There is an open question as to whether grain needs to go to Chicago or not. There is an open question as to whether it needs to go to Omaha or not, beyond the amount for their own consumption. On the other hand, to what point should it go? It must go to some place, you know, between the producing period and the consuming period, and it is natural for it to get to the centers on account of railroad transportation.

Mr. DICKINSON. Wouldn't distributing market centers instead of the present system of centralized markets be better?

Mr. REYNOLDS. Aren't our markets at this time distributing markets? Suppose I go into the territory I live in and concede that to be a distributing territory, because there are so many millions of bushels of grain in that territory. There is an element that I can not control. Suppose I build elevators, yet I can not build transportation lines to meet the transportation needs. Transportation lines to carry merchandise to their natural centers are the natural trunk lines to carry grain back.

Mr. DICKINSON. Isn't it true that speculation in futures is confined in one or two large centers, Minneapolis and Chicago principally?

Mr. REYNOLDS. The transactions are, but if you will pardon me, I think there is more speculation to-day among farmers and small people sending in their orders than all others combined.

Mr. DICKINSON. Suppose, instead of having these big centers in which speculation can take place, you had the market at Wichita, that Mr. Tincher spoke of, and the distributing markets out among the consumers. I suppose your Ballard firm are millers and consumers of wheat?

Mr. REYNOLDS. Yes, sir.

Mr. DICKINSON. Wouldn't that check the wildcat speculation that is now taking place at Chicago and Minneapolis, and would not it be an answer to your contention that you would not have bids that you could offer your patrons there a certain price on the morning they went to sell?

Mr. REYNOLDS. I feel that it would be like the recent wave of crime that has gone over the country. I am afraid the thugs would soon congregate.

Mr. DICKINSON. You spoke of some pernicious practices in speculation at this time. What did you have in mind?

Mr. REYNOLDS. Mainly that of men with money and without concern for their fellowmen or anybody else and who are willing to throw the weight of their money in there to produce more dollars to themselves.

Mr. DICKINSON. Have you anything to say along the line that the present boards of trade have made any efforts to control the men you speak of?

Mr. REYNOLDS. Yes; there have been all kinds of regulation from time to time. I am not conversant with them for the moment, but I think that 75 per cent of the members of these boards of trade do not go beyond reasonable limits. But along the line of the question of Mr. McLaughlin of Nebraska, to which I made answer, there is a difference in firms handling option business and handling cash business. There are a good many firms who formerly did nothing but option business, but who have gone into cash business. They do all branches. You can ship them cash grain and they will sell it next week, or they will take your option to buy or sell in the future. There are a few concerns in the country that have no interest in that, except orders they can get from their clients throughout the county. In order to get them they send out literature of very questionable character. And if I wanted to make one suggestion—and I would not like to have may name to it, because it might look silly six months from now—I think a careful censoring of market letters to the country would be a fine thing. A man who can write a fine high-sounding circular and send it out and tell you that to-day 35 boatloads of wheat left New York for Europe and that this is the time to buy and then 10 or 15 days from now he will advise you to sell wheat because 25 boatloads have arrived from Europe—using the same argument that he used last week to put the market up he now twists around to bring it down, is a bad thing. And the unplucked in the country, perhaps we among them, do not see the fallacy of the whole thing.

Mr. DICKINSON. Then, in your judgment do not you believe there are enough pernicious practices in the marketing system to warrant this committee to try to do something?

Mr. REYNOLDS. I grant you.

Mr. DICKINSON. If you were permitted and the exchanges were permitted to deal in cash grains and in grain to arrive, could not you and they under those conditions continue for all the purposes you suggested?

Mr. REYNOLDS. I would have to answer that question that I do not know. I do not know to what extent the maintenance comes from this source. I believe that the larger part of the maintenance and the inducement to the men that operate exchanges comes from option dealing. I am led to believe that. Now, then, I do not know.

Mr. DICKINSON. I am willing to stop with that.

Mr. REYNOLDS. I am led to believe that. But I would like to add what I have said before, I am afraid to try to substitute a cure that might be worse than the disease.

Mr. HUTCHINSON. In reference to this literature sent out, you do not mean to say that the grain exchanges send out anything like that, do they?

Mr. REYNOLDS. Oh, no.

Mr. HUTCHINSON. Could we pass a law to prevent anybody from doing that?

Mr. REYNOLDS. I do not believe it will ever be possible to conduct grain exchanges with all the facilities they demand without some central organization to do it.

Mr. HUTCHINSON. You do not believe that this committee can pass a law to prevent anybody from sending out that kind of literature?

Mr. REYNOLDS. I am glad I am not on this committee, because I can not see a way out for that now.

Gentlemen of the committee, I am very much obliged to you.

The CHAIRMAN. We thank you.

Mr. TINCHER. Mr. C. S. Barrett, president of the National Farmers' Union, was called away from town this morning by reason of sickness in his family, and he is likely to be absent indefinitely. He prepared a statement he would like to have put into the record pertaining to this matter.

The CHAIRMAN. Without objection, it will be inserted.

STATEMENT SUBMITTED BY MR. C. S. BARRETT, PRESIDENT NATIONAL FARMERS' UNION, WASHINGTON, D. C.

The great staple crops of this Nation are controlled by a group of predatory gamblers who are mercilessly robbing farmers and city people alike. I am appearing before this committee to-day to urge Congress to wipe out this great evil.

Organized speculation is a polite name for gambling. Gambling is merely one form of stealing; therefore, when we get down to brass tacks, speculation is just plain every-day stealing.

Stealing is the acquiring of your neighbors' property without giving any return either in money, property, or service. Isn't that precisely what speculation attempts to do, and succeeds in doing on a scale which makes the professional gamblers and thieves look like pikers?

The world has long suffered from the predatory parasites who call themselves speculators, but it remained for the nineteenth century to permit them to organize themselves into powerful "exchanges," so called and properly so, for they most successfully exchange their paper contracts for the hard-earned money of the general public.

It does not matter whether it is cotton, or corn, or wheat, or oats, or pork, or coffee, or railroad and industrial stocks, the procedure is the same; the victims get paper contracts from the members of the "exchange" and the said members get the victims' money. The president of one of these gangs, operating in Chicago, plaintively complains that the attacks now being leveled at the "exchanges" are all based on the grievous error that gambling and speculation mean the same thing.

These silk-hatted, frock-coated parasites have grown so powerful that they are able to hire the shrewdest and most able members of the Ananias club in the country to persuade the people, and especially legislators, that black is white—that speculation is not only honorable but essential to the country's business—indeed that without it we would all go to the bow wows. Their success has been remarkable, not surprisingly so, in view of the number of fools in the world who labor faithfully and endure hardships in order that parasites may live in luxury and ease.

Let us consider some facts and see if the obvious deduction can percolate into your brains.

When a wheat crop of, say, 750,000,000 bushels, is bought and sold on paper contracts of the Chicago gambling hell 14 times over before a bushel of the crop has moved to market, how in the name of common sense can that help the wheat grower? He has 1 bushel of wheat to sell. The organized gamblers offer to

the public 14 bushels. And these gentry have the nerve to talk about the law of supply and demand, at the very moment that for a fairly known demand they offer in the market place 10, 12, 14, or 20 times the actual amount of wheat in existence.

Consider cotton: For 40 years cotton was the backbone of our foreign exports, and rendered priceless service to the country, being still a tremendous factor in that field.

In 1868 the New York Cotton "Exchange" established the "future board," and the gamblers of New York, New Orleans, and Liverpool took charge of cotton. A careful study worked out in 1906 showed that in the 38 years from 1868 to 1906 cotton gamblers had cost the cotton producers of the South seven thousand millions of dollars.

If this same study was brought up to date it would probably show twelve billions of dollars. The study referred to showed that in one year when the crop was less than 12,000,000 bales the cotton gamblers had actually sold on their paper contracts 300,000,000 bales.

It is a moderate statement when we affirm that in the last 75 years the various bodies of organized gamblers have cost the producers of the country at least 50 billions of dollars—probably much more. Consider the railroads. Our Government is this year paying over $1,400,000,000 to the railroads to enable them to function, of which about $654,000,000 is a direct subsidy and $750,000,000 in effect a subsidy. Freight and passenger rates are the highest known for years, and at a time when freight and passenger rates on Canadian railroads are to be substantially reduced within a few months.

Why is this?

The answer is the New York Stock Exchange. For 50 years, with perhaps a half dozen exceptions, the railroads of this country have been used as counters in the gambling game called "marginal trading" on the New York Stock Exchange. The building up of the physical condition of the properties and making the perfect operation of the roads the first consideration would be the first thought of honest business men. Not so with gambling exploiters—the roads were played as counters in their marginal trading, and whatever was required for their gambling operations was placed first—hence to-day, in addition to the vast transportation charges, we are paying a billion and a quarter out of taxes to keep them going.

If we insist on keeping the gamblers we must pay the price.

Listen to some of their contentions. The speculator is the great stabilizer of business. But for him the cotton growers would be absolutely at the mercy of the conscienceless cotton mnufacturers, and the grain growers would be at the mercy of the soulless millers. How sad to contemplate! But listen further. Not only is he the producers' protector, but he is equally the protector of the cotton manufacturer and the grain miller, for if these people did not have the place to "hedge" against their purchases of actual cotton and grain, by selling future contracts on the "exchanges," they could not do business—they would inevitably go broke.

The organized gamblers provide that place, and being of philanthropic mold are content with the rake-off from the "kitty."

A little comment here is not amiss. These speculative stabilizers have been responsible for every panic this country has ever known. 1837, 1857, 1873, 1893, 1907, and 1920 are all monuments to their stabilizing ability—to say nothing of the South Sea bubble in England and the Mississippi bubble in France. Again, before these gentry organized, the cotton manufacturers and grain millers managed to exist for a long time without "hedging" which suggests that the "hedging" game is merely one of their inventions to help out the "kitty."

We come now to a statement of fact which we must face. At the bottom of all our economic ills are certain factors of which two outweigh all others combined.

The first and most deadly of these is the practice of speculation, which our people have come to accept without any conception of the inherent dishonesty of the thing. The men who sell what they do not possess, knowing that they will never possess it, and having no intentions of possessing it, are personally dishonest, and so long as we permit our business to be based so largely on a dishonest principle we may expect eternal trouble and periodical breakdowns.

The second factor is not a practice but a lack. That is our failure to work out an equitable and practical system of distribution for all our products both raw and manufactured. When this is mentioned the speculators rush to the front and join in the chorus. That's right, but the first thing to do is to work

out the system of distribution and that will eliminate the need of speculation. Very shrewd these gentry are. If they can divert our minds from the first and most pressing evil toward a job of years they know they are safe, for by the time we work that out they will have new wrinkles in their thimble rigging game.

Take first things first and destroy organized speculation by the law. Then the next step.

The liquor men thought their business a necessity. The Nation decided otherwise. The speculative gentry relieve us of dollars where the liquor men got dimes. It must follow its late partner in evil doing.

On one day recently the wheat gamblers in Chicago forced wheat up 7 cents in an hour and then a rally by the "bears" forced it down to the opening point. Thus our bread is juggled with. Well-informed men in the West place the losses to the grain farmers by the gambling operations in the last 60 days at more than a billion dollars. During the same period the gamblers have cost the cotton farmers of the south $1,000,000. Thus our clothing is juggled with.

A sound economy and public morality drove out liquor. Now we face a greater, more insiduous and more deadly menace. A sound economy and public morality demand the driving out of the future gamblers. Shall we dally with the evil until it overwhelms us?

The world produces enough of everything to give all humanity a comfortable living, but if we persist in resting business upon a foundation of exploitation and gambling this century will see the end of production, business, and the vast majority of the human race.

The fools who proclaim themselves optimist will not believe this, nevertheless, they will bring it to pass for the fool optimist is responsible for all the evil conditions of our times because they refuse to think or see.

The CHAIRMAN. The committee will now stand in recess until 2 o'clock this afternoon.

(Thereupon at 12 o'clock and 10 minutes p. m. the committee recessed until 2 o'clock p. m.)

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FUTURE TRADING.

AFTER RECESS.

The committee reassembled at the expiration of the recess at 2 o'clock p. m. Hon. Gilbert N. Haugen, chairman, presiding.

The CHAIRMAN. Mr. Hoch, do you desire to be heard next?

Mr. HOCH. Mr. Chairman, I would like to have Mr. Topping heard at this time.

The CHAIRMAN. We will be glad to hear Mr. Topping.

STATEMENT OF MR. C. V. TOPPING, OF KANSAS CITY, MO.

Mr. TOPPING. Mr. Chairman and members of the committee, I appear here really to take the place of Mr. L. E. Moses, president of the Southwestern Millers' League and president of the Kansas Flour Mills Co., who own and operate mills throughout the Southwest. Business over which he had no control prevented him from appearing. He has jotted down a few of his thoughts here which I think I will read to you.

OPTIONAL FUTURE TRADING PROBLEMS.

Our present method of marketing grain in a natural development by those who serve the general public from the producer to the consumer. Persons, firms, or corporations engaged in a trade that has been developed through a natural procedure are slow to accept an innovation or to acknowledge that apparently needed factors in any branch of their business have become a menace to the general public and are not essential.

Those of us who were not in the business at the inception of future trading can presume to make the deductions that the optional trading was an outgrowth of contractual agreements between the producer, country grain merchant, miller, and terminal elevator operator.

It is very easy for those who maintain that an option trading feature is necessary to create the idealistic argument and to present it in a forcible manner as opportunity demands. Under the constitution and bill of rights, there can be no restrictions which will interfere with trade relations on interstate movement except through the all-powerful method of Congressional taxation.

If optional trading were confined to dealing by those who produce, own, sell, and buy the actual grain, there would be no argument against continuing such a part of the marketing facilities as boards of trade or grain exchanges who in their capacity as buffer between the producer and consumer do serve the general public in storing the surplus of grain offerings in excess of immediate needs.

In the early history of boards of trade or grain exchanges as were established at terminal markets, the milling industry was in its infancy. The grist mill and the exchange miller were a factor in their immediate locality to supply the needs of the small communities with the converted food of grain. At

certain points in the United States after the opening of our agricultural west certain far-seeing business men established larger milling units than it would be possible to operate in the interior and these mills became known as merchant millers, who through their business acumen, initiative, and merchandising ability served to create a market for wheat grown not alone in the vicinity of mills but drew supplies from points then considered extraordinary distances. The grain merchants followed this milling development by creating storage, purchasing grain for shipment to such milling points at times when these mills were not actually in the market, which created the necessity for an organization by those engaged in the business. A natural development was contracts for future delivery which slowly developed into what is now known as optional trading. The procedure as undertaken and as first developed was legitimate, needed, and could not to-day be questioned.

Many of us can remember the first so-called corners that were run on the Chicago markets through optional trading and then almost unbelievable fortunes either made or lost. These reports were heralded as the result of keen business judgment backed by vast sums of money and entailed in a small percentage the providing of market for the wheat to support their optional tradings. These large operations were directly contrary to the purpose for which option trading was created, as the fundamental principle of option trading is that option trading should only support dealing in the actual grains, rather than that the small dealing in actual grain should support the option market.

This can be illustrated by the flow of water in a river such as the Missouri or the Mississippi, wherein a certain volume passes between the banks of such rivers each given season, but if it should be attempted to pass a year's volume of water in a shorter space of time, it would serve to inundate the surrounding country and the banks could not carry the burden. Option trading as conduc ed to-day with all its speculative features and the many thousands who deal on the boards of trade through this medium for the sole hope of gain, with no intention of ever owning or selling a bushel of grain, is simply trying to deal in the entire supply of the season's crop of such grain. It is not marketing the actual grain, it is pure speculation on the part of 90 per cent of those who to-day carry on and make possible what is now known as our optional trading boards of trade markets.

The membership of these boards of trade is largely made up of commission merchants, not grain merchants or millers, and the livelihood of these members can only come from the commissions paid on future trading not by the grain men or millers but by the speculator who only does so in the hope of gain.

This is an expense that is borne by the general public and can be no other than a direct charge either on the producer of grain or the consumer of its products. It is not the purpose of this article to ocndemn the fundamental principle of option trading when it serves as an adjunct to the actual dealing in the grain, but we do protest and defy any argument in favor of allowing unrestricted open speculative option markets to be continued as such a controlling factor as it is to-day in the marketing of the farmers' crop and the final consumption of its products by the consumer. The eliminating of the option trading would in no way interfere with the handling of the actual grain, nor can the statement made in its favor—that it is a stabilizing influence on the market—be supported by actual facts.

Those of us who are dealing in actual grain realize we can not depend upon the stability of the option market as compared with the worth of the actual grain; we either pay over or under the option. It is ludicrous to have such a condition permitted or maintained. Why should we allow the servant to become the master, as it has to-day? Why should we be compelled to purchase wheat or other cereals on the basis of the option market, wherein if the speculator were eliminated the option market would be a reflection of the actual worth of the grain due to the immutable law of supply and demand either by our domestic markets, in case of a short crop, or in the world's market in the event of a surplus being raised.

The producer is penalized by permitting this trading to continue, and the consumer is also compelled to pay an increased price to guarantee dealers in the actual commodities protection against the fluctuating option market that we have had for so many years as a controlling factor, which in turn is largely controlled by speculators who by overwhelming purchases or sales affect the markets for periods of our crop years contrary to the actual value of the grain based upon its worth relative to supply and demand.

It is an actual fact that confronts us, not theories. We can not consider this question from the idealistic point of view that will be presented to you, but must look at the question as it actually exists. We have had a remarkable example of its workings in the past six months since the opening of the optional grain markets by certain boards of trade in the United States, wherein daily fluctuations of 10 to 15 cents were not unusual, thereby creating a distress of nonknowledge of the value of their year's returns on investment and labor by the producer, and nonknowledge of the value of the products of grain as dealt in by the purchasing public, with the result that the dealer in actual grain, particularly the miller, has been as might be termed "between the devil and the deep blue sea."

To address you as millers: It is comforting for those engaged in our industry to have their life's work in plant and equipment and necessary operating capital, and have the raw material which we need, and in turn the finished products which we manufacture, absolutely controlled by the speculator who has no investment excepting the small margin he is compelled to put up in placing orders with a commission house as an operator on the Grain Exchange.

We are not in competition with ourselves, or the actual grain man, but we are in competition with the speculator, whether he be doctor, banker, merchant in other lines of merchandise, or purely a financial speculator who enters the market for hope of gain. In order to beat this game as now operated one must be a seer of the psychology of the general public in their determination of the course of events. We can not rightly prognosticate the future value of the products in which we deal according to our best judgment of supply and demand or the needs of the public that we attempt to serve. We are confronted with a problem which would require a clairvoyant to be employed as a statistician in our office. Experience in business counts for naught; economical and efficient management of plants is worthless; careful manufacturing methods, initiative, constructive merchandising procedure can in no way affect your balance sheet at the end of the year. The whole question hinges upon—am I in accord with the speculative element of the times or the world.

The miller's customers do not take for granted your quotations on your products as representative of their worth. They look at the blackboard and decide for themselves whether you should name a lower price or a higher one. Your splendidly milled flour from selected wheat in their minds is worth no more than the flour milled from ordinary wheat under ordinary circumstances, provided you are not willing to play the market as regulated by that all-powerful factor of grain exchanges. The buyer does not take into consideration the care with which you select your wheat, or the grade of wheat you buy. Your price paid may not fluctuate 1 cent in a week, yet each day you are compelled to change your price with the fluctuating quotations.

The whole question hinges upon whether the milling fraternity are really merchants; whether they are operating a needed facility for the benefit of the general public; whether they serve the people of the United States in a needed capacity; whether the energy and effort put forth is worthy of consideration, or whether we should be simply an adjunct or auxiliary to the quoted, estimated without reason valuation as may be hourly, daily, and weekly marked up on that all-powerful factor.

We are notified by interests whose livelihood depends upon this speculative feature being continued, that without this option trading our business judgment would not allow us to continue in the milling business, buying grain direct from the producer or from the actual dealer in the grain and selling our products as required by the trade, without this protection. It is not a protection. It is a tax; from which, if it can possibly be arranged, our industry should be relieved. We are told we can not buy wheat from the farmer with safety and place it in our country elevators without hedging on the option market. The truth is that there is not one country dealer in a hundred that ever hedges a bushel of wheat which he buys from the farmer. The facts are that those who have attempted to merchandise grain so purchased have gone out of business voluntarily or have failed through trying to follow this speculative factor. We are told that the miller can not safely buy wheat and against the purchases of wheat sell flour to his customers without utilizing such a so-called hedging factor. We are told the grain merchants can not accumulate grain for the future need of the millers or for export without this so-called and loudly tooted hedging privilege. We are told that everyone connected with the purchase of the farmers' grain and the consumption of its products without this all-powerful option market would lose their all, and that they are the guardians of our

fortune and our operations. To a thinking American business man a guardian of this sort does not appear to be necessary or essential in the scheme of our operations.

It is true that the one period in which we did not have this wonderful opportunity of protection was during the years 1917, 1918, 1919, wherein we had the best opportunity for legitimate risk but a much less per cent of fluctuation than we have had during the past six months or during the prewar periods. We were relieved from this tax, and while we can anticipate that a counter claim will be made that during the years mentioned we were protected through a Government guaranty, yet if one will only remember the conditions that prevailed during those years they must realize that that guaranty only served as a put, and our operations were carried on at a higher basis than this guaranty for the larger portion of our crop.

The whole question is: Have the millers of the United States enough confidence in their business judgment to realize that we can conduct business without a guardian, or must we acknowledge that the only method in which our business can be successfully conducted is to join the speculative class, cease to be merchants, and attempt to make the best guess?

Mr. HUTCHINSON. Will you kindly give the name of the writer or the author of that statement?

Mr. TOPPING. I did that, Mr. Congressman—L. E. Moses.

The CHAIRMAN. Who is Mr. Moses?

Mr. TOPPING. President of the Southwestern Millers League and president of the Kansas Flour Mills Co., who own and operate mills in the Southwest.

Mr. HUTCHINSON. What is their capacity?

Mr. TINCHER. Give an outline of the extent of their operations.

Mr. TOPPING. Their capacity is upwards of 10,000 barrels daily. They have mills in Kansas, Oklahoma, at Kansas City, and in the Northwest—one in Wisconsin and one in Minnesota.

Mr. JACOWAY. How long have they been in business?

Mr. TOPPING. The Kansas Flour Mills Co. has been in business about five years. Mr. Moses has been in the milling business, I presume, 30 years.

The CHAIRMAN. They are engaged in the business actively and extensively?

Mr. TOPPING. Extensively and actively in the grain and milling business. They have grain elevators all over the Southwest.

Mr. JACOWAY. It is a corporation, is it?

Mr. TOPPING. Yes, sir.

Mr. TINCHER. Mr. Moses started in the milling business in a small way, did he not?

Mr. TOPPING. He started in a small way at Great Bend.

Mr. TINCHER. In Barton County, and now has, I think they claim, the finest equipped mill in the country. He has grown up in the business and knows something of what he is talking about.

Mr. JACOWAY. What is the capitalization of this mill?

Mr. TOPPING. The total of both kinds of stock is something like seven or seven and a half million dollars.

Mr. JACOWAY. Fully paid up?

Mr. TOPPING. As to that, I could not tell you. It is owned by individuals and owned not in large quantities, scattered all over the country.

Mr. HUTCHINSON. Does this company buy direct from the farmers and have their own elevators?

Mr. TOPPING. Yes, sir.

Mr. HUTCHINSON. They do not have to buy through the brokers at all?

Mr. TOPPING. Oh, they do buy through brokers, but they handle very large quantities of wheat.

Mr. HUTCHINSON. And get their wheat right around the country near their mills?

Mr. TOPPING. Of course, the mill in Kansas City they have the wheat shipped in.

Mr. HUTCHINSON. But they have their own elevators.

Mr. TOPPING. They have their own elevators that they operate in connection with the mill or for exporting, either way, whichever they choose.

Mr. JACOWAY. Then they are engaged in a domestic and foreign business also?

Mr. TOPPING. Yes, sir.

Mr. HUTCHINSON. How does a miller who does not get his wheat right around in that section make out?

Mr. TOPPING. There is always wheat on the markets in the Southwest. At Kansas City there are several markets that have wheat at all times.

Mr. HUTCHINSON. What did you say your capacity was?

Mr. TOPPING. About 10,000 barrels a day.

Mr. HUTCHINSON. It takes about 50,000 bushels a day then to run the mills?

Mr. TOPPING. Yes, sir.

Mr. HUTCHINSON. And how many elevators do you have to gather that wheat up?

Mr. TOPPING. Something like 200.

Mr. HUTCHINSON. You are very fortunate then.

The CHAIRMAN. Do you wish to make a statement to the committee?

Mr. TOPPING. No; I think Mr. Moses's ideas cover the situation very thoroughly. At a meeting in the Southwest of the Southwestern Millers' League, we passed a resolution, of which all of you have been furnished a copy, that we were opposed to option trading in the present manner being carried out.

Mr. JACOWAY. Does your concern ever use the hedge contract?

Mr. TOPPING. I am not in the milling business myself, directly. I am secertary of the Southwestern Millers' League.

The CHAIRMAN. Are you familiar with milling and the transactions of buying and selling?

Mr. TOPPING. Pretty thoroughly; yes, sir.

The CHAIRMAN. Are the millers quite satisfied with the grades delivered on contracts?

Mr. TOPPING. Yes, sir. I will say this, Mr. Chairman, in the Southwest it is a little different. You see, the States that we represent in the Southwest raise about one-third of the wheat raised in the United States, and we get the wheat from first-hand. We buy it from the country elevators.

The CHAIRMAN. I had reference to the grades delivered on future contracts or future sales for delivery.

Mr. TOPPING. We are only supplied on our future contracts at Kansas City. Those grades are fairly satisfactory.

The CHAIRMAN. How many grades are delivered under the contracts?

Mr. TOPPING. I would not be in position to answer that intelligently. I should say four or five, anyway, but I do not know how many; that is, of the hard wheat.

The CHAIRMAN. Kansas City deals only with certain clases of wheat, does it not?

Mr. TOPPING. Yes.

The CHAIRMAN. It does not deal in spring wheat, does it?

Mr. TOPPING. No, sir. We have what is known as the hard wheat, and the hard wheat prevails; but we have also the soft red wheat.

The CHAIRMAN. The grades are very limited on that market as compared with Chicago, for instance?

Mr. TOPPING. The grades usually are No. 1, No. 2, and No. 3, applying on contracts.

The CHAIRMAN And how many classes?

Mr. TOPPING. Of the red soft wheat and hard wheat, that makes six grades, but if you buy hard wheat——

The CHAIRMAN. Are there six grades of each class?

Mr. TOPPING. No; three in each class. If you buy hard wheat, they must furnish 1, 2, or 3 grade of hard wheat on the contract.

The CHAIRMAN. Is that the ruling of the exchange?

Mr. TOPPING. Yes, sir; I am pretty sure that is the rule of the exchange at Kansas City.

The CHAIRMAN. It is not limited in all the grades and all the classes?

Mr. TOPPING. No, sir.

The CHAIRMAN. That ought to be very satisfactory.

Mr. TOPPING. As I say, in Kansas City, our wheat is nearly at all times the accumulation of wheat from our districts. We accumulate but very little wheat from other districts.

Mr. McLAUGHLIN of Michigan. Do you supply these outlying mills, as we might call them, from the wheat that you buy in the immediate vicinity or the place where you are doing business?

Mr. TOPPING. Yes, sir; as much as possible they do that, and most of the time it is bought from the country elevator and sent direct to the mill.

Mr. McLAUGHLIN of Michigan. Most of those mills, except the large one in Kansas City, are small mills?

Mr. TOPPING. No, sir; we have some very large mills; that is, we have some good-sized mills all over the Southwest.

Mr. McLAUGHLIN of Michigan. You spoke of 10,000 barrels a day; is that the capacity of one mill or the combined capacity.

Mr. TOPPING. That is the combined capacity.

Mr. McLAUGHLIN of Michigan. Of all of them?

Mr. TOPPING. Yes, sir; our largest mill in the Southwest is about 6,000 barrels, located at St. Joe. We have some at Kansas City of about 5,500 barrels, but for the majority of the mills it grades down to 300-, 500-, and 1,000-barrel mills scattered throughout the Southwest.

Mr. McLAUGHLIN of Michigan. There is some place, I presume, where you collect in elevators more wheat than at other places; where is that?

Mr. TOPPING. The mills in the Southwest are pretty generally supplied with large storage facilities themselves, and they accumulate this wheat for themselves from the country.

Mr. McLAUGHLIN of Michigan. That condition is true, then, of all of your mills?

Mr. TOPPING. Outside of the terminals; yes, sir.

Mr. McLAUGHLIN of Michigan. Outside of what?

Mr. TOPPING. Outside of the terminal markets—Kansas City.

Mr. McLAUGHLIN of Michigan. Have you not elevators at Kansas City to supply your mills there?

Mr. TOPPING. Not mill elevators. We have elevators, but they are not in the same capacity, proportionately, as they are in the country.

Mr. WILSON. Do you buy any grain in Chicago?

Mr. TOPPING. No, sir; we very seldom buy any grain in Chicago.

Mr. WILSON. You just draw on your supply from your immediate territory?

Mr. TOPPING. In the Southwest; yes, sir.

Mr. McLAUGHLIN of Nebraska. Mr. Topping, a witness before the committee this morning expressed the fear that no legislation could be drafted that would eliminate the purely speculative practices from the system of grain distribution without seriously affecting the legitimate trader. Have you or the members of your organization had before you and examined the provisions of the Capper-Tincher bill?

Mr. TOPPING. I have. The organization has not, but I have. I think personally that that bill will cure a whole lot of the troubles.

Mr. VOIGT. I was wondering whether these different grades of grain that can be delivered on contract are equally suitable for making flour.

Mr. TOPPING. If we buy milling grades we specify it must be milling grades. If you simply buy an option you might get a grade of wheat that would not be fit for milling.

Mr. VOIGT. Then the man who buys merely an option does so with the intention that the grain shall not be delivered; it is a mere speculation?

Mr. TOPPING. 90 per cent of it is that way; yes, sir.

Mr. VOIGT. A man can not very well buy wheat with the purpose of using it unless he knows what he is going to get on that contract.

Mr. TOPPING. There is very little of the option-purchased wheat delivered and ground in the Southwest.

Mr. VOIGT. Then when the miller buys on an option he specifies that it must be milling wheat?

Mr. TOPPING. No, sir; I do not think you can do that. There are very few mills in the Southwest that use the option trading and bid for their mills. It is a cash transaction. They buy from the terminal elevator a certain grade of wheat.

Mr. VOIGT. Then a miller could not buy wheat on the board of trade?

Mr. TOPPING. Oh, yes; a miller could buy. On the cash market there is always a number of samples there of wheat on the board of trade and cars that could be bought and delivered to him.

Mr. VOIGT. Suppose a miller wants to buy wheat to be used in 60 days; can he buy that on the board of trade and know that he will get exactly what he wants?

Mr. TOPPING. I do not think he would take the wheat. If he had done that he would buy the option, and when he gets ready for the wheat he would take the cash wheat and close out his option.

Mr. LEE. That is simply a hedge.

Mr. TOPPING. Yes, sir.

Mr. VOIGT. He would have to perform two transactions.

Mr. TOPPING. Yes, sir.

Mr. VOIGT. He could not actually buy wheat for future delivery and know that he could use it in his mill?

Mr. TOPPING. No; he could not know that it would be suitable for his grades of flour.

The CHAIRMAN. Certain grades of flour require certain grades of wheat?

Mr. TOPPING. Yes, sir; your milling mixture is made up of a certain class of wheat and you have got to keep your grade of flour built up at that rate all the time.

The CHAIRMAN. I take it a miller advertises and builds up certain brands of flour?

Mr. TOPPING. Yes, sir.

The CHAIRMAN. And it requires a certain grade of wheat to produce that certain brand?

Mr. TOPPING. Yes, sir.

The CHAIRMAN. For instance, if a certain brand requires soft wheat or wheat grown in the Southwest, it could not be made out of wheat up north?

Mr. TOPPING. No, sir; it could not be made out of the spring wheat.

Mr. HUTCHINSON. Is the concern you represent a member of the Board of Trade of Kansas City?

Mr. TOPPING. I do not represent this firm, Mr. Congressman.

Mr. HUTCHINSON. Is the firm you are talking about a member?

Mr. TOPPING. Their grain department is a member of the Board of Trade of Kansas City.

Mr. HUTCHINSON. Suppose this committee should pass this Tincher Bill, as I designate it, would that affect your people at all?

Mr. TOPPING. I do not think it would or Mr. Moses would not take the stand he does.

Mr. TINCHER. You are not gambling. The reason it would not affect you is that you are engaged in legitimate business of manufacturing wheat into flour and selling it and buying your wheat of the people who produce it.

Mr. TOPPING. Yes, sir.

Mr. TINCHER. And you are not gambling in wheat futures?

Mr. TOPPING. Absolutely.

Mr. TINCHER. And for that reason the Tincher Bill would not affect you in any way?

Mr. TOPPING. No, sir.

Mr. HUTCHINSON. What about the miller who can not get local wheat? How would he have to run his business; that is, a miller who grinds 250,000 or 300,000 bushels of wheat a day. You would put him out of business?

Mr. TOPPING. We have not any such mills as that.

Mr. HUTCHINSON. I know that, but we are not passing this bill for the southwest but for the entire country, for the milling industry, the farmers and everybody else.

Mr. TICHNER. Where is the mill that grinds 250,000 bushels of wheat a day?

Mr. HUTCHINSON. Well, there are several of them.

Mr. TOPPING. I should think those people ought to appear themselves and defend their own cause.

Mr. HUTCHINSON. That is all.

Mr. TOPPING. I am not defending their interests.

Mr. HOCH. Mr. Topping, Mr. Moses is president of the Kansas Flour Mills Co., I believe?

Mr. TOPPING. Yes, sir.

Mr. HOCH. As I understand, he has a milling capacity of something like ten or fifteen thousand barrels?

Mr. TOPPING. I do not know just what the capacity is but it is around that number; yes, sir. It is over 10,000.

Mr. HOCH. Do you know to what extent he has hedged in his transactions or does he hedge as a matter of practice?

Mr. TOPPING. I do not think he hedges.

Mr. HOCH. Do any of the members of your association hedge?

Mr. TOPPING. Yes, sir; a few of them. In the resolutions that were passed, there were six or seven in opposition to the vote.

Mr. HOCH. In your judgment, would it be possible to preserve a legitimate hedging system and at the same time eliminate the pure speculator?

Mr. TOPPING. Yes, sir.

Mr. HOCH. The man who sells shorts, for instance.

Mr. TOPPING. Yes, sir; I think it could be done.

Mr. HOCH. You think we could eliminate short selling, for instance, and at the same time an effective hedging system would still be possible?

Mr. TOPPING. I think it could be done. I would not know just how to work that out but I believe it could be done.

Mr. HOCH. If you prevent by some means a man from offering for sale this commodity in which he has no color of right whatever, would it not still be possible for men to hedge on the grain market? I am saying that in sympathy with the statement you make.

Mr. TOPPING. I think so.

Mr. HOCH. In other words, we do not need to destroy the hedging system in order to do away with pure speculation on the grain market.

Mr. TOPPING. I do not think you would, at all, Mr. Hoch.

Mr. HOCH. Are you familiar with what happened on the board of trade from the 1st of June until the 15th of July, when operations in futures were reestablished?

Mr. TOPPING. Yes, sir; in a general way.

Mr. HOCH. As I understand it, the board of trade was operating cash sales, the same as usual, from the time the Government guaranty ceased on the last day of May, and that futures were not permitted until the 15th day of July.

Mr. TOPPING. That is correct.

Mr. HOCH. Do you know what the fluctuation of the cash market was in that six weeks' period?

Mr. TOPPING. Very slight. There was a very slight fluctuation.

Mr. HOCH. Is it not a fact that cash grain closed on the 15th day of July at the same price it opened on the 1st day of June?

Mr. TOPPING. I think so, Mr. Hoch. There was a very slight difference anyway, if any.

Mr. HOCH. Do you know what fluctuations took place immediately after the 15th of July, or beginning on the 15th of July when dealing in futures was reestablished on the Chicago exchange?

Mr. TOPPING. Very heavy fluctuations from then on down to the present time.

Mr. HOCH. And futures were very much lower?

Mr. TOPPING. Very much lower than cash grain; yes, sir.

Mr. HOCH. Have you any judgment as to whether the cash price tended to follow the lowering price in futures?

Mr. TOPPING. To a certain extent it was influenced by the option market and has gradually declined since that time.

The CHAIRMAN. Can you give the cause of the fluctuation? What caused that fluctuation?

Mr. TOPPING. Speculation, I should put it, Mr. Chairman.

The CHAIRMAN. How is the premium accounted for? If you recall, there was a large premium in cash wheat last fall. I believe it was up to about 13 cents on cash wheat.

Mr. TOPPING. You mean cash over the option?

The CHAIRMAN. Over the cash quotations.

Mr. TOPPING. Usually the cash wheat, under ordinary circumstances, is higher than the option market.

The CHAIRMAN. Is it not a fact that for a while wheat, we will say, was quoted at $1.60 and selling for $1.73, a premium of 13 cents?

Mr. TOPPING. Yes, sir.

The CHAIRMAN. How do you account for that or how is that accounted for?

Mr. TOPPING. I would account for that because nobody wanted to pay the cash price for the option wheat. It was a depressing future.

The CHAIRMAN. It was explained by one man that it was due to the shortage of cars and the shortage of wheat coming in at the time. Is there anything to that contention?

Mr. TOPPING. No; I do not think so.

Mr. HOCH. Mr. Topping, it has been contended here that bankers refuse to finance these transactions unless the protection of the hedge is afforded. Do you know, as a matter of fact, during the period of war control, whether bankers financed these transactions on the basis of the market which was very much higher than the Government guaranty? Is that a fact?

Mr. TOPPING. Yes, sir; the reverse is true to a great extent in the Southwest. Our bankers in the Southwest do not care to finance a speculator, and they would rather finance a milling concern that does not hedge its stuff than one that does.

Mr. HOCH. The testimony this morning was, I believe, that the grain market at times was 40 cents above the Government guaranty price.

Mr. TOPPING. It was.

Mr. HOCH. At that time, upon what basis did the banker finance those transactions—simply upon the basis of the Government guaranty or did he take into consideration the market price?

Mr. TOPPING. I think he took into consideration a great deal the financial situation of the miller himself.

Mr. HOCH. What I am getting at is, did he base his transaction and the matter of security solely on the Government guaranty price?

Mr. TOPPING. Oh, no.

Mr. HOCH. If the banker is willing to do that where there is a spread of 40 cents, do you know of any reason why a banker should not be willing to finance a transaction where the only difference is a possible fluctuation in the market.

Mr. TOPPING. I do not think there would be any trouble in the world about financing your business whether you were an option trader or not, or a hedger.

Mr. WILSON. In buying your wheat down there in the Southwest from these farmers, upon what do you base the market price that you pay them?

Mr. TOPPING. In the Southwest it is based on the demand, whether it is export or whether it is domestic.

Mr. WILSON. I know that, but do you follow any other market at all in the prices you pay?

Mr. TOPPING. We follow the market as I say, either the domestic or the export makes your market.

Mr. WILSON. I understand; but, what I am getting at is, do you follow the Kansas City market or the Chicago market or the St. Paul market?

Mr. TOPPING. No; we do not follow——

Mr. WILSON (interposing). Do you pay any attention to their quotations?

Mr. TOPPING. It is either Kansas City, Chicago, or the export market.

The CHAIRMAN. It is the cash market that governs the price.

Mr. TOPPING. Yes, sir. If the export market is higher than the Kansas City or Chicago market, that makes the market. If it is lower then the Kansas City or Chicago market makes the market. That condition fluctuates.

Mr. WILSON. Do you pay the farmers more than they can get for their grain in Kansas City or Chicago?

Mr. TOPPING. No; not more than they can get in Chicago or Kansas City less the freight, but they do get more for their wheat, proportionately, when exporters are buying, because our rates are built up in such a way that our wheat all goes to the Gulf, and it is higher proportionately through the Gulf than it is to go East.

Mr. TINCHER. Does this ever happen, that cash wheat will go up to-day, for instance, and future options go down?

Mr. TOPPING. Well, it has done that, but not as a general rule. It very seldom does that. They usually work together pretty closely.

Mr. TINCHER. If that does happen one day, there is some pretty rapid trading in futures the next day in Chicago, is there not?

Mr. TOPPING. Well, I expect so.

Mr. HUTCHINSON. You said that your mills down there had about 200 elevators buying for the mills, did you not?

Mr. TOPPING. Yes, sir.

Mr. HUTCHINSON. If an Eastern mill bids to that elevator, they will sell to the Eastern mill, will they not?

Mr. TOPPING. They will sell anywhere; yes, sir.

Mr. HUTCHINSON. You are not confined to your mill.

Mr. TOPPING. No, sir.

Mr. HUTCHINSON. In other words, you have to compete with the world.

Mr. TOPPING. Yes, sir.

The CHAIRMAN. We are very grateful to you, sir.

Mr. SILVER. Mr. Chairman, we would like next for you to hear Mr. Eckhardt.

STATEMENT OF MR. WILLIAM G. ECKHARDT, DIRECTOR, ILLINOIS AGRICULTURAL ASSOCIATION, GRAIN MARKETING DEPARTMENT, 130 NORTH WELLS STREET, CHICAGO, ILL.

Mr. ECKHARDT. Mr. Chairman, my name is W. G. Eckhardt; I am the director of the grain marketing department of the Illinois Agricultural Association, and will appear here as their representative. This is a farmers' organization in Illinois with 105,000 paid memberships. It is an organization affiliated with the American Farm Bureau Federation, one of the State federations.

Mr. WILSON. Before you enter on your discussion, may I inquire whether you are related to B. A. Eckhardt or John W. Eckhardt, of Chicago.

Mr. ECKHARDT. I understand the families come from the same part of the Old World.

Mr. WILSON. I just wondered whether you were some near relation.

Mr. ECKHARDT. No. I think we have somewhat different views regarding these matters.

Mr. WILSON. I do not know anything about the views of the other men, but I know them very well, and they are very high-class men.

Mr. ECKHARDT. Mr. Chairman, if I may be permitted, I think I can save the committee's time by making my statement. I have some notes and will go through them as rapidly as I can, and then I will be glad to try to answer any questions that you wish to ask me, if I can answer them.

The CHAIRMAN. That is agreeable, I am sure.

Mr. ECKHARDT. I wish to state at the very beginning that I have given this matter some considerable attention. I am a member of the farmers' marketing committee of 17 who are making a study of the national marketing of grain. This committee has called before it some of the men whom we believe to be the best authorities on the grain business in America, with a view to getting information that will help and try to build up a farmers marketing organization or help correct the evils in the present marketing system.

I wish to state further that looking upon the exchanges or the boards of trade, I see two functions that it performs; the function of a place where buyer and seller meet, where grain grades are determined, and where deals for legitimate business are consummated as a high type of service. We look at it also, at least I do, in another way, that that part of the system whereby a tug-of-war exists between two tremendous gambling forces and the resultant of that tug-of-war is the price determining factor, is fundamentally wrong. This price determining factor determines the labor return of one-third of the human race in this country. The farmer has done the work. He has taken the hazards of season, insects and all of that, and after a year is passed we see that price determined by a group of men—I will not try to name them. They have been described here before, but as we see it in our little country towns, watching the blackboard and betting whether that wheat goes up or down, we say that that is fundamentally wrong.

In analyzing this problem, I am going to call attention to some of the results. I do not know whether we can get hold of the causes. I have heard as able an authority as the president of the Chicago Board of Trade, whom I regard as a very high-class gentleman, and he was not able, to my satisfaction, to give me the reasons for certain things happening. I have heard as able a man as Julius H. Barnes, and I was not satisfied after hearing him that he had given us the foundation for these violent fluctuations and the price-determining factors.

It is well to remember that the turnover of the farmer is just once in a year and that with the hazards of season he probably has an average crop once in two years. The turnover of the dealer happens many times throughout the year.

The thing that the farmer wants is a stable market and not a fluctuating market. If I understand it, the thing that the speculator wants is a fluctuating market, a market that goes up and down.

Now, I find that I am not the only one who is not able to get satisfactory evidence of the causes back of this whole move. I find here, in a statement issued by the Federal Trade Commission, on December 20, this statement:

> The commission has not had the opportunity to obtain directly the figures which would determine conclusively whether large transactions in futures of a manipulative nature have occurred. It has sought but has not been able to secure the cooperation of the officers and directors of the Chicago Board of Trade deemed necessary for the collection of pertinent information in this matter. The limited evidence available does not establish manipulation of wheat prices by large operators in futures, nor that the recent low average or downward trend of wheat prices, has been due to speculative manipulation.

They state further:

> The matter of future trading in grain is to be given extended treatment in a forthcoming volume of the report upon the grain trade.

Mr. McLAUGHLIN of Michigan. When was that written?

Mr. ECKHARDT. December 13, 1920, and states "Release afternoon papers, Monday, December 20, 1920."

Mr. McLAUGHLIN of Michigan. Is there any time of the year mentioned when that volume will be printed?

Mr. ECKHARDT. The date is not given. It merely states, "The matter of future trading in grain is to be given extended treatment in a forthcoming volume of the report upon the grain trade." It does not give the time.

I present that matter because I feel there is certain information I should have in my work, and that I am sure also would be exceedingly valuable to your committee in legislating on a matter that is as large as this matter is. We should know surely the truth underlying the entire matter.

Now, I said a moment ago that I would try to analyze this problem somewhat from results. If I saw smoke coming out of a building I might conclude that there was a fire within that building. I might have many other evidences to that effect, but that might be a rather harmless fire in that building, doing no great amount of damage. I am going to point to some things which to me seem like smoke.

I know that about two years ago some corn started from South America to be shipped to the United States. The market price of corn was $1.50 a bushel, approximately, at Chicago. Some dealers

who were the largest operators in the county where I live immediately and before the published statements in regard to that corn coming in, began telling the farmers that the price of corn was going to go down and they had better sell. The fact is that after the report became published and circulated broadcast, the price of corn declined to $1, approximately, a bushel. Then, before the next crop of corn was produced, that same corn went to almost $2 a bushel. Now, without another bushel of corn being produced in the entire world, we have the price of that corn changing from $1.50 down to $1 and up to $2 a bushel.

In my judgment, there is something fundamentally wrong with a price determining machine that will function in that manner.

Here is some more smoke in regard to the same situation: Since the 15th of July, when option trading opened in wheat, a certain buyer of grain and wheat for mills received word two days before wheat took a drop of 23 cents a bushel, which meant a difference in price paid by that man at his point of 35 cents a bushel on that wheat. Preceding that, after the trading opened, that same man received word also two days before the time that that big drop came, and it made a difference of 20 cents a bushel that he bought the wheat for; in other words, he was given instructions by somebody from on high that he should not buy any wheat; that there was to be a big drop in prices.

Now, Mr. Chairman, if you should wish the name of that gentleman, it shall be my pleasure to furnish it to you, if you care for it, later on.

Mr. WILSON. Why not give it to us now?

Mr. ECKHARDT. I do not feel I would be doing right to give the name now.

Mr. WILSON. Do you believe it would help us in our discussions?

Mr. ECKHARDT. No, I do not think it will.

Now, the thermometer has been often used as an illustration of an instrument that determines temperature accurately. The thermometer has been often used as illustrating the functions of our marketing machinery that determines the price. Now, if we had a thermometer in this room, and it registered the temperature at this time 120, we might think there was something wrong; or if that same thermometer registered the temperature down to 20 degrees, we would also feel something was wrong.

I am going to examine some data, and I wish you would get this data, because to me it is a very vital thing.

On July 1 the Chicago market on corn, December future, was $1.57 a bushel. The Government report of corn showed there would be 2,779,000,000 bushels of corn. All the corn in the United States at that price was being registered by that marketing system as worth $4,363,000,000.

We go on to the 8th of October, and we find that nature has been good, and there is a much larger crop of corn, and the yield has gone up so that we have 3,216,192,000 bushels, according to the Government report.

Of course, a larger crop of corn should be worth less per unit. I think we can absolutely admit that. But all of that crop of corn ought to be worth the money it was before, surely. But we find that

that larger crop of corn has fallen in price, December future, to 84½ cents, or $2,718,000,000.

We have here a difference of 437,192,000 bushels of corn, and that amount of corn is worth $1,645,000,000 less money. I want you to be sure to get that point. We have nearly a half billion bushels more corn, worth $1,645,000,000 less money.

Now, when we look at that thermometer, do you not think maybe there is some boy around with a hot water bottle on the bulb one time or the other?

I want to take you to wheat, which goes just the opposite way, for approximately the same period. On July 15 the Government report on wheat was 809,000,000 bushels; the December future price was $2.70. The total value of wheat in the United States at that price was $2,184,000,000; on October 8, instead of having a larger crop of wheat, the Government shows we did not get as much. We have only 750,648,000 bushels, but the price had also gone down to $1.93½ for December future, making the total wheat worth $1,452,000,000. We have less wheat. Conditions throughout the world indicated that all of that wheat would surely be used, but we find that with nearly 59,000,000 bushels less wheat we have a less price per unit of wheat, and a total of $732,000,000 less money.

I am not going into the technique of hedging. I think you have men before your committee who can handle that phase of the work much better than it will be my ability to do.

I want to speak briefly of the insurance feature of hedging. We are told from the reports that approximately 600,000,000 bushels of grain actually passed through Chicago. I am told from sources that I feel are reliable—I wish we had the positive figures—that the speculative trading of that market amounts to a figure between 25,000,000,000 and 30,000,000,000 of bushels in one year's time, or an amount 40 times as much as the actual grain that goes through. Let us see what that insurance costs. That will amount to between $50,000,000 and $60,000,000, if that is the truth. I wish I had that data, and I have heard men who have been in the business for 30 years say that that figure is only half or less than half what it should be. I do not know. I wish we had that data. That insurance does not do a man much good when the cash market is away above the future price of the grain; it does not seem as though the farmer gets much good from it.

Down in my own State, as near as we can determine that, not over 15 or 20 per cent of the farmers' elevator companies ever use that type of insurance, and when they do begin using it they get a manager who becomes demoralized with that business, becomes a speculator and a gambler, and we have had many failures because of the demoralizing influence of that business.

Supposing that during this readjustment period, as you might call it, that we had had that short-selling of land. What would have happened to us? Supposing that you would have had exchanges where men could buy and sell in futures farm lands, with everything going down. Would not the price of that land have gone down from $300 in the corn belt and the mid-west States to probably $150 or $175 and absolutely ruined our entire credit and business? But instead of that if it is proven that our land is too high, those prices will recede during a long period of time.

The point I am making, gentlemen, is: Does not this tremendous volume of speculation push the price away beyond the point it would go if the true law of supply and demand were maintained. Is it not exaggerated away beyond what it would be otherwise, although the market between the individual transactions may not be as large?

Then, if this is a good system of merchandising, why should not the International Harvester Company establish an exchange in which mowers and binders and the other things that farmers use would be sold to the highest bidder upon the type of a market?

You might apply the same arrangement to labor, if you would. There is just as much reason, in my judgment, and just as much logic that after the laboring man has done his work a year—that is what the farmers have done—that the product of that labor should be gambled in to the extent of 20, 40 or 100 times as large a volume, and its value determined after it is all over, and if it is a loss that that individual must take it.

Another point that I am brought to see rather clearly is that our exchanges are an absolute monopoly—that they are built for the trader and not for the producer of grain; and to support that contention I will read a paragraph of a report that the Federal Trade Commission, released in the morning newspapers of December 17, 1920 (reading):

With respect of the Chamber of Commerce of Minneapolis, the commission is informed and sets forth in the complaint that the chamber conducts a grain exchange for the exclusive use of its members who, as commission merchants, operators of terminal elevators, bankers, and others, handle approximately two hundred million bushels of grain annually; that the chamber also buys, sells, and exchanges valuable commercial information consisting chiefly of grain price quotations and other market news from and among other so-called regular grain exchanges.

Its business and the business of its members is carried on under strict penalty of the rules of the chamber, which, it is alleged, are opposed to and prohibit members from doing business on the principle of cooperative grain marketing and exclude from membership cooperative organizations. Through use of great financial power, community of stock ownership, interlocking directorates, and with the assistance of other so-called regular grain exchanges it is alleged that members of the Chamber of Commerce of Minneapolis have acquired and now maintain a monopoly of the grain trade at Minneapolis and within a radius of 100 miles of that city.

I might say that there may be a reason why large bankers in these market centers will support these exchanges, and the tremendous volume of speculative trading—that is, supposing the figures I have quoted are somewhere near accurate; we should know just exactly what they are—but supposing they are accurate, and the man buying or selling that future has to put with his commission house, and the commission house in turn deposits that money in the bank, 5 or 10 per cent of the value of that grain that is being traded in, and that may amount in a single month's time to a sum of money of $500,000,000 in a city like Chicago alone. Bear that in mind, that the bankers' interest may be doubled in that case, that he has a vital concern that that tremendous volume of money is left in that territory.

I spoke shortly in regard to the Argentine corn, and the information that is sent out to the farm folks in my territory by the trade is

often changed. We do not believe it is reliable. I feel we should have some definite information in that respect.

I have three points that I would suggest should be made, at least three points of information that I wish I should have access to in this whole problem: First, that your committee request the Federal Trade Commission to make immediately available the investigational material in the forthcoming report, and then we can look into the work that those people have done for three to five years of time.

Then, second, the nature of our market information be studied, a survey of the character of the information actually secured by the principal firms on the grain exchanges of the United States regarding the changing condition of grain crops in this and other countries and regarding conditions determining exportable surplus and effective domestic and foreign demand, together with a survey of the sources of such information and its general reliability or unreliability, the use which is made of this information by the grain trade or others and the possible effect of such information on prices of grain. That is the second point.

The third point—and that is information that the Federal Trade Commission has been unable to get, and I do not believe any individual has it—that we follow absolutely every trade on those exchanges from its origin to its end, in order that we may have that information.

Here is a volume of business. No man knows how large it is they tell us. That group of speculators on this side [illustrating] are betting that the price will go up and that group of speculators on the other side betting that the price will go down, and the result of those two forces determining it. Is it not possible that some one man may have 10 commission houses or 20 commission houses on that market, and that 10 of those are instructed to buy the grain and the other 10 be instructed to sell it; and with almost unlimited funds those commission houses go into that market and in a day's time sell 100,000,000 bushels, which, according to the data I have given to you already, is only a day's transaction—speculative trades—and that becomes a price-determining factor, and with one receding and the other side advancing, or, vice versa, absolutely sell that market up or down at their will, and not cost a man doing that thing a dollar, because he owns the 20 commission houses and the one move wipes out the other. I wonder if that is not sometimes done?

Above everything else, if that sort of thing is not done, how in God's world can corn go down to a $1 and up to $2 without a bushel being produced in all the world during that period? I do not know. Under the true law of supply and demand, it seems to me that that could not be done.

That covers the three points of recommendations that I would make.

I would like the opportunity at a later period to make a further statement on this matter, if that privilege might be granted.

Mr. McLAUGHLIN of Michigan. Referring to this last matter you speak of, the representatives of the commission houses that appeared. Did I understand you saying that they are in the habit of dividing sales and the men in the same corporation sitting on one

side of the table trying to force prices up to men sitting on the other side of the table trying to force them down?

Mr. ECKHARDT. The problem that I presented was that these 10 commission houses over here [illustrating] would be instructed to be purchasers while the others were sellers of approximately the same volume throughout the day.

Mr. MCLAUGHLIN of Michigan. There are two separate organizations, however?

Mr. ECKHARDT. That is it exactly.

Mr. MCLAUGHLIN of Michigan. I do not catch that.

Mr. ECKHARDT. Yes, sir; but the same man owns both of them. I say, what is to prevent that?

Mr. MCLAUGHLIN of Michigan. I do not know. I was asking you.

Mr. ECKHARDT. The point I am making, Mr. Chairman, is that here is a price-determining machine and that there may be danger that it can be meddled with, and we want to know whether it is the actual grain that is determining the price or whether it is the thousands upon thousands of sales that is determining the price and whether it is within the power of men who have money back of them to move that price as may suit their needs.

Mr. MCLAUGHLIN of Michigan. Have you anything more to offer as to the cause of the improper or untruthful registering of that thermometer in the room whether it is the buyers who with fire drive it up 120, or some application of ice that drives it down perhaps to 20 degrees; whether we should send for the fire department or go in and remove the ice? What were you looking for, ice or fire?

Mr. ECKHARDT. The thing I am thinking in that respect is that we ought to trace every one of these transactions that happen in that market from A to Z and know from the analysis of those transactions whether it is manipulation of markets or whether it is not.

Mr. MCLAUGHLIN of Michigan. We hope that you gentlemen will be able to tell us.

Mr. ECKHARDT. The Federal Trade Commission can not get it. How could we get it? The Federal Trade Commission in its report that I read to you states that they can not get that data.

The CHAIRMAN. What data do you refer to there which was dated December 17, or released for publication on December 17, 1920, and what particular information were they unable to give?

Mr. ECKHARDT. That was information concerning the manipulation of prices on the markets.

Mr. TINCHER. I do not know whether I just understood that illustration of yours where the firm was buying and selling. Do you mean to infer that, for instance, if one man wanted to control the market that he would go on the market and ostensibly sell several million bushels of wheat, then have some friend ostensibly buy it, for the impression it would have on the country, when, as a matter of fact, there was not any real wheat changed hands in the transaction?

Mr. ECKHARDT. There was no wheat in the transaction whatever. But I meant just a little further than that: Here is that price being determined by the volume of sales going through there. Supposing one group was receding and the other advancing; would not that operation be controlling the movement, and would not one side wipe out the other?

Mr. TINCHER. And your idea is, as one remedy for the thermometer, to do away with the gambling in futures?

Mr. ECKHARDT. Individually, I feel that gambling in the products of human labor, and that gambling done by the type of men that do it, is one of the most damnable things in the United States to-day.

Mr. TINCHER. Then, you think that the fact, if it is a fact, that every bushel of wheat in the United States purchased and sold fourteen times before it is thrashed by these gamblers on the board of trade has not any proper place in good government?

Mr. ECKHARDT. That has no more place in good government than does the roulette wheel in church. [Laughter.]

Mr. HUTCHINSON. I want to ask you a question. I understand that you are going to give us a remedy for this thing later?

Mr. ECKHARDT. I am not going to speak for the committee of 17 here. I will say, however, that we are working for information on that problem. I will say that much—and that there is every effort being made that can be made toward the solution of the difficulties so far as the committee is concerned.

Mr. HUTCHINSON. You are not offering a solution?

Mr. ECKHARDT. No.

Mr. HUTCHINSON. I would like to inquire a moment about the valuation of corn.

Mr. ECKHARDT. Yes.

Mr. HUTCHINSON. At what time—August, you say, you made an estimate of corn at $1.57?

Mr. ECKHARDT. That was December future corn on July 1, 1920.

Mr. HUTCHINSON. You are estimating something that was not known.

Mr. ECKHARDT. I am speaking about the accuracy of the thermometer that registered the price.

Mr. HUTCHINSON. Who did that? You do not mean to say you want them to fix the price of corn and wheat or anything like that?

Mr. ECKHARDT. I did not understand the question.

Mr. HUTCHINSON. I say, you do not want them to fix the price of corn and wheat. Who figured that valuation at that time? You figured several million bushels at $1.57, worth so many millions of dollars. That was before the corn was grown?

Mr. ECKHARDT. Absolutely.

Mr. HUTCHINSON. Did you take into consideration the millions of bushels of corn of the 1919 crop yet on hand?

Mr. ECKHARDT. That was surely taken into consideration by the forces that were determining the price.

Mr. HUTCHINSON. Who did that; who gave you that?

Mr. ECKHARDT. The speculators.

Mr. HUTCHINSON. You said the Government did that.

Mr. ECKHARDT. It was the Government figure of the new crop. I did not figure in the old crop in that. That was the estimate of the new crop.

Mr. HUTCHINSON. Do you know how many millions of bushels of the 1919 corn crop are on hand now?

Mr. ECKHARDT. No.

Mr. HUTCHINSON. Is not that a factor in figuring the price of corn?

Mr. ECKHARDT. That factor was in existence at that time.

Mr. HUTCHINSON. Is it in existence now?

Mr. ECKHARDT. Oh, yes.

Mr. HUTCHINSON. Then, you do not condemn the value of the corn we are figuring on now? Do you think a dollar a bushel is a fair price for corn for the immense quantity of the 1919 crop that there is on hand?

Mr. ECKHARDT. When we get down to what is a good price, we enter into another field. Corn this year cost the farmers of Iowa and Illinois approximately 1.13 a bushel to raise.

Mr. HUTCHINSON. That is not the question. You have been saying that the price ought to be fixed by the law of supply and demand. If you have grown more corn than you can use in two years, the price will go down accordingly, will it not?

Mr. ECKHARDT. If you follow Adam Smith's law, that if there are ten bags of grain brought on to the markets and there are only nine purchasers for it, and you let this extra bag determine what shall be received for all the ten, then what you say is true. If you follow that law to the end, then we say to the farm folks of the United States that if Nature is good, and you raise just a little more of the crop than is needed, we are going to punish you for Nature having been good to you, and the result might be that we will pay you, as we are doing to the farmers of Iowa now, 49 cents a bushel for corn, as was testified before you to-day, half, and less than half, what it cost that farmer to raise it; and as a result there will be less production, and finally we will reach a point when there is a shortage of corn, a subsequent higher price, and you will equally rob the men in the cities because of the price on meat and the price on grain, when the farmers do not have much of it to sell.

Mr. HUTCHINSON. Who do you think ought to make up that deficiency—what it cost the farmer and the consumer—the Government?

Mr. ECKHARDT. Oh, no.

Mr. HUTCHINSON. Who would do it?

Mr. ECKHARDT. The point I am trying to make is that there is something fundamentally wrong with our price-determining machinery, and whether this short selling is right. We should make up this deficiency? I am not going to try to answer that, because I can not answer it. However, if the speculator performed the service that he is supposed to perform to the community as a whole, then that small excess would not beat the price of corn down to half what it cost to raise it; and then, in turn, finally advance the price on to the consumers, as it did here a year ago, to twice what it cost to produce it—it would not do that if the speculator was doing the great service he claims to do.

Mr. HUTCHINSON. He does both ways—sometimes he makes it better for the farmer and sometimes better for the speculator?

Mr. ECKHARDT. It is my observation that the speculator pretty largely skins the farmer when he buys it from him, and when he gets it into his hands he skins the man he sells it to.

Mr. HUTCHINSON. You spoke about the exchanges, that the farmer can not get into the exchange; is that right?

Mr. ECKHARDT. That is true.

Mr. HUTCHINSON. Why?

Mr. ECKHARDT. The farmer does business on the basis that his organization shall return to the individual produced everything that was not needed in it to actually take care of the business. The exchange operates on a given margin regardless of whether the farmer ever makes a cent out of his stuff or not; the margin comes out of the business and is sure business to the man on the exchange. There is the fundamental difference. The one says, in virtue, that the returns for raising this crop, to the last fractional part of a cent, outside of the cost of doing the business, shall go to the man who did the work of raising the crop, and the other says, "Whether this man down there who raises a crop makes any profit or not, I shall have my margin for handling this business." There is the fundamental difference.

Mr. HUTCHINSON. What I asked you about was whether the farmer could not get in the exchange.

Mr. ECKHARDT. He can not as a cooperative organization.

Mr. HUTCHINSON. Can he do so individually?

Mr. ECKHARDT. Yes; and then skin up the rest of his brothers.

Mr. HUTCHINSON. Skin them up? They do not do that, do they?

Mr. ECKHARDT. Oh, yes, they do.

Mr. HUTCHINSON. I want to read you the provision for membership and the by-laws of one of the exchanges [reading]:

Any respectable individual, firm, or corporation shall be eligible for membership. Such applicant having been duly proposed, shall make a written application, stating the nature of his business and such other facts as the committee on membership may require, and after 10 days' notice of such application has been posted upon the exchange, shall, if elected by the board of directors, be admitted to membership, upon payment of the fee hereinafter mentioned (or on presentation of certificate of membership to be assigned to him), and upon signing the agreement to abide by the charter, by-laws, and rules of the exchange, and by all amendments and additions which may be made thereto.

Mr. ECKHARDT. Then they are subject to the rules of the exchange and the rules of the exchange say that a farmer's cooperative company, which returns to the farmer all that was not needed for handling the business, can not enter the exchange.

Mr. TINCHER. The gentleman from New Jersey has just read into the record an extract from some book. What is that?

Mr. HUTCHINSON. The by-laws and rules for the Philadelphia exchange.

Mr. TINCHER. How many pages does that book contain?

Mr. HUTCHINSON. A good many—209.

Mr. TINCHER. That is not so long as the Illinois statutes. However, I would not think a farmer would be to blame if he did not know the entire contents of that volume. Are those volumes containing the by-laws of the Philadelphia exchange available for all the members of the committee?

Mr. WILSON. You can buy them, Mr. Tincher.

Mr. HUTCHINSON. Mr. Gates will be here. I think you ought to ask him for the by-laws of the Board of Trade of Chicago.

Mr. TINCHER. Have all the exchanges the same by-laws?

Mr. HUTCHINSON. No.

The CHAIRMAN. You stated you would like to have information or data as to the volume business transacted in these exchanges. Is that available?

Mr. ECKHARDT. We have never been able to get it.

The CHAIRMAN. Is that what you were referring to in your remarks?

Mr. ECKHARDT. Yes.

The CHAIRMAN. Under the tax laws they will have to pay tax on their transactions?

Mr. ECKHARDT. I would rather judge, Mr. Chairman, that we will find in the forthcoming reports of the Federal Trade Commission the information governing that. I hope so, at any rate.

The CHAIRMAN. I think it would be very important that we have that, because there have been so many suggestions about the volume of business.

Mr. HUTCHINSON. The lists of transactions do not go through the board of trade.

Mr. ECKHARDT. I was speaking of the relation of what actually went through that market and the speculations on that market. I confine it entirely to that one market.

The CHAIRMAN. The payment of tax is required on every contract. You were speaking about some gentleman receiving a tip two days ahead. Is he a member of an exchange?

Mr. ECKHARDT. I do not believe he is. His firm is.

The CHAIRMAN. He is connected with a firm?

Mr. ECKHARDT. Yes, sir; this gentleman is a buyer of wheat for a company that has a tremendous number of elevators.

The CHAIRMAN. A large operator?

Mr. ECKHARDT. Yes; a large operator himself; an employee for those people.

The CHAIRMAN. Evidently there is a leak somewhere.

Mr. ECKHARDT. If the marketing machinery was not manipulated, how could that happen? The question I implied was that if that market machinery was not subject to manipulation, how could that thing happen?

Mr. DICKINSON. What effort have you made to get the information just referred to, in studying the grain problem?

Mr. ECKHARDT. We have asked, as I stated before, some of the most able men in the grain trade. I feel they have honestly told us they did not have the information.

Mr. DICKINSON. Why have they not got it?

Mr. ECKHARDT. I could not answer that; I do not know.

Mr. DICKINSON. Did they tell you that they did not have the records of the individual transactions on the board of trade, and that they were kept by the individual firms or companies?

Mr. ECKHARDT. It is my understanding that individual companies keep them, but I could not give you the full information.

Mr. DICKINSON. Then the exchange does not have the record of the transactions that passed on the exchange?

Mr. ECKHARDT. That is my understanding, that the exchanges do not have the record.

Mr. DICKINSON. How long have they been developing this present market system?

Mr. ECKHARDT. It is our understanding that our large exchange at Chicago started shortly after the Civil War, about 70 years ago.

Mr. DICKINSON. And you say that the hedging is used as a matter of insurance?

Mr. ECKHARDT. That is what is claimed; I did not say that.

Mr. DICKINSON. Who gets the insurance?

Mr. ECKHARDT. The insurance, to me, seems largely to go to the dealer. I can not see very much for the farmer who has to spend a year's time raising the crop costing over a dollar a bushel who then has to sell it at 49 cents a bushel.

Mr. DICKINSON. So far as you have studied market conditions, can you see where the farmer has had anybody sitting in on these many developments in the marketing system protecting his interests and seeing that he gets a square deal in working out this insurance in the manipulations of the marketing system?

Mr. ECKHARDT. He has even been prevented from having an opportunity to have his organization represented in the councils of that exchange, because of the way he does business. I assert again that, in my judgment, it is an absolute monopoly.

Mr. DICKINSON. Who uses the most, the hedge among the elevators the country over, so far as you know, the commercial line elevator, the cooperative elevator, or the individual elevator men?

Mr. ECKHARDT. I am quite sure that the cooperative elevator men, at least in those sections of the country where the elevator man is not financed by the big commission houses, uses it least.

Mr. DICKINSON. Do you know what State shows the greatest percentage of hedged grain by the elevator men?

Mr. ECKHARDT. It is my judgment that the State of North Dakota and probably Minnesota, and some portions of South Dakota, have the largest amount of hedged grain.

Mr. DICKINSON. There is a man up in North Dakota by the name of Townley, is there not?

Mr. ECKHARDT. I have heard of him. I should make a point clear there, Mr. Chairman, in regard to the hedging in that territory. The banks are small; the amount of money a bank can loan to its elevator company is small. The result is that those elevator companies, even farmer cooperative elevator companies, are financed by their commission houses, and their commission house requires hedging; that is the reason for it.

Mr. DICKINSON. If hedging is an insurance, and it is your judgment that it does not protect the producer or the consumer——

Mr. ECKHARDT (interposing). I am positive it does not.

Mr. DICKINSON. It, therefore, protects the man who is between the producer and the consumer?

Mr. ECKHARDT. Yes, sir.

Mr. DICKINSON. Tell me who pays for that insurance.

Mr. ECKHARDT. I do not know. The insurance, if the volume is as large in speculation as it is believed to be—that tremendous margin that is paid in commissions comes out of speculators or gamblers I feel that the public, as a whole, must pay that bill, although it has been said that speculators make their money off of each other. It is my understanding that a speculator does not produce anything I do not see how it is possible for speculators to make money off of each other any more than it would be—excuse me for a homely illustration—for two lice on a hog's back to make their living off of each other. [Laughter.]

Mr. DICKINSON. You made a statement there about the information not being accurate by which the market conditions are deter

mined. In your judgment, would it be beneficial for the Government, under our marketing system, to supervise the data that is sent out from time to time governing the supply of grain and other items that affect the market of any given grain?

Mr. ECKHARDT. In my judgment, for the entire public there is no data that is required more than absolutely accurate market information, and I feel that the Government should furnish to the very utmost that market information, because it concerns both the producer and the consumer, and both should know the truth regarding the supplies.

That will create then a condition between the man who consumes in the city and the farmer who is producing it, so that both will know from this official Government source the facts, and that the information is not biased by either class or group.

The CHAIRMAN. Does not the Bureau of Markets furnish any information?

Mr. ECKHARDT. We have some information furnished by the Bureau of Markets, but it is not furnished to us in time.

The CHAIRMAN. They have leased wires. Is there any quicker way of furnishing it?

Mr. ECKHARDT. Here is the type of information that the Bureau of Markets, it is my understanding, does not give. In my work this year I went to the Pacific Coast States. I found there the California Fruit Exchange that does $100,000,000 worth of business a year, and they had received a cablegram which read that a cargo of lemons was being shipped from Sicily to New Orleans. That sort of information, after those lemons had arrived at New Orleans, probably would be furnished by the Government. But the people who do business with that information must know it at the time their shipments start to New Orleans, so as to adjust themselves with the competition that a carload of lemons from Sicily will bring them.

The CHAIRMAN. Would you suggest that we have these cables from every port in the world supported by the Government?

Mr. ECKHARDT. I would suggest that every port in the world in which the United States has consular officers would have a reporting service that would give us the truth on world-wide conditions.

The CHAIRMAN. They are furnishing that now; that is, not daily, but they are furnishing it in their reports.

Mr. ECKHARDT. For instance, when we get a report that there has been a drought in Australia, the result is that wheat prices will go up a certain amount, based on that report. Then we get another report two weeks later that there has been a good rain, and then prices go down again 15 or 20 cents a bushel. Then we get a report from Argentina that there is a tremendous crop of wheat, and away down it goes; and then we get information that the Argentine crop is short and immediately the opposite takes place; and you have that seesaw that is almost unbearable to the man out there who raises the crop.

The CHAIRMAN. Is that the Government report you are referring to?

Mr. ECKHARDT. No; those are the reports circulated by the trade that I suggest be investigated as to reliability and their effect upon the market.

The CHAIRMAN. Do you consider the Bureau of Markets' reports good?

Mr. ECKHARDT. The Government report by the Bureau of Markets I consider very good as far as it goes. I do not think it goes near as far as it should.

The CHAIRMAN. What have you to suggest as to whether the reports be monthly, weekly, or daily reports?

Mr. ECKHARDT. I think we should have daily reports as far as possible.

The CHAIRMAN. From every section of the country?

Mr. ECKHARDT. From every section of the ccountry; yes, sir; for a thing as big as this, that involves hundreds of millions of dollars, and that involves the changing conditions here on products to a point where a man's profits are wiped out simply because of those fluctuations that can be brought about my manipulators, and I think we should know the truth to-day.

The CHAIRMAN. Would you carry it to the extent of reporting every rain-fall, every shower, or what?

Mr. ECKHARDT. I would report everything that materially affected a changing of conditions.

The CHAIRMAN. My understanding is that that is being done now.

Mr. ECKHARDT. It is not being done ——

The CHAIRMAN (interposing). Of course, there are differences of opinion of what it is possible to report.

Mr. ECKHARDT. It is my judgment that we ought to have at least three times the service along that line.

The CHAIRMAN. I think that can be provided for without any further expense.

Mr. DICKINSON. I understand that you want actual reports and not estimates?

Mr. ECKHARDT. We want reports as to the truth of the thing, so far as may be known. Many of these reports are not true.

Mr. DICKINSON. You gave a statement about corn made in July, a certain number of bushels, and when the actual figures on the crops were obtained they were found to be several million bushels more.

Mr. ECKHARDT. I want that report just as far as we known the truth about it. I think we have got to have that; I think we need that information.

Mr. DICKINSON. That is, the estimates?

Mr. ECKHARDT. I think we need the estimates. Of course, there are two ways of getting estimates.

Mr. DICKINSON. That had a good deal of effect on the price of corn, when we found we had a good many millions of bushels more than estimated.

Mr. ECKHARDT. There was nearly a half billion bushels more corn, but why should a half billion bushels more corn sell for better than $1,645,000,000 less money? That is the serious part of it. I am questioning the forces that determine the price and value.

The CHAIRMAN. I would like to know a little more about the reports. They are not from the Department of Agriculture.

Mr. ECKHARDT. Oh, no; they are not.

The CHAIRMAN. The Department of Agriculture can not be held responsible for every report sent out by Tom, Dick, and Harry. What have you to suggest about the Government report?

Mr. ECKHARDT. The thing that I would suggest as regards the Government reports would be that in Argentina the United States Government would have a man posted just the same as you have a counsel there—I do not know just what you call those officers—but that man's business would be to gather crop information, and he should be a trained market reporter.

The CHAIRMAN. We have several men there now, as I understand it.

Mr. ECKHARDT. Yes, sir; and that man would report rainfall and temperature, and report also the estimated crop according to that Government's reports.

The CHAIRMAN. We have them now.

Mr. ECKHARDT. Yes, but I feel that that service needs to be very, very much extended. If that service was extended to the point where we could have the varying influences that would determine and define world-wide conditions, so that that information was available universally among farm folks everywhere and business men. We should have that. Why should a crop that is going to be harvested four months from now, representing all of the wheat in the United States at this time, be affected by a reported drought, and that report be wiped out within two weeks and it goes the other way? Why should we have that moving and fluctuating?

The CHAIRMAN. Let me suggest that that is a matter that should be taken up with the Department of Agriculture and also with Congress. It is for the Department of Agriculture to determine the character of the report. Congress has appropriated the money and the money is being spent, and it should be used to the best advantage, and if you have any suggestions along that line I am sure the department would be glad to have them so it can improve upon its reports.

Mr. ECKHARDT. We are in very close touch with the department. This investigation that I called attention to was to investigate chambers of commerce and boards of trade and the market information that commission men, etc., send out, its reliability and influence upon the market, in order to know what is happening back of the closed doors.

The CHAIRMAN. What have you reference to now?

Mr. ECKHARDT. I have reference right now to the fact that this sort of information is exceedingly valuable for you people to have here before you in determining a thing as large as this law that you are planning to pass.

The CHAIRMAN. We are maintaining a large office force in Chicago for that very purpose with regard to livestock and grain, and this Government is furnishing a great deal of information. I do not know of what value it is. I have heard some complaint that it is a little late in arriving. But some reports are made on the estimates, and the department is endeavoring to furnish reliable reports and furnish the report after the transaction is made, and there may be criticism that the report is sent out at 11 o'clock when it should be sent out at 8 o'clock in the morning, and that can be changed if it is desirable. The country dealers would prefer to have the report at 8 o'clock in the morning that is furnished at 11 o'clock.

Mr. DICKINSON. Would the restriction of future trading, as suggested before the committee, in any way interfere with the proposed plan of marketing which your committee hopes to inaugurate?

Mr. ECKHARDT. Since the plan is not complete, I could not answer that question. I might say, as an individual, but I hope the time will come when it will not be necessary to have in any way, shape, or form a tremendous volume of gambling in our food products.

Mr. VOIGT. I would like to ask you a question. Are you going to submit to this committee some remedy that you propose for stopping this gambling?

Mr. ECKHARDT. No.

Mr. VOIGT. You say that you are a member of the committee now working on that question?

Mr. ECKHARDT. Yes. There is a committee of 17 that we appointed as a result of a joint conference of the Cooperative Farmers' Associations at Chicago July 23 and 24, where some 500 people were present. The chairman of that meeting appointed a committee of 17 to work out plans for the national cooperative marketing of grain. I am a member of that committee.

Mr. VOIGT. Do you not think you could do a good turn for the farmers by giving this committee the benefit of your investigations on the subject of grain gambling?

Mr. ECKHARDT. If that report was finished we surely would be pleased to have the opportunity of presenting it here. We have a group of investigators investigating various lines of work. We have had men in Canada studying the entire marketing system there; and we have studied the marketing system of the entire Pacific Coast States. We have had brought us, as far as we could, the men we thought were the most able in the United States to give us information definitely along that line. The report is not yet ready; it is not far enough along to even to present in a tentative way the conclusions that will be reached.

Mr. VOIGT. Your investigation covers a great deal wider field than the investigation before this committee at this time? You are engaged in an investigation of the whole subject of marketing?

Mr. ECKHARDT. Yes, sir; in grain.

Mr. VOIGT. But the proposition here is to remedy stock gambling in grain?

Mr. ECKHARDT. Yes.

Mr. VOIGT. It seems to me if you have any ideas upon that subject you ought to submit them to this committee.

Mr. ECKHARDT. I feel that the best I could possibly do here would be to point out some of the effects, which I have tried to do, in these price fluctuations and the rumors we have heard, etc.; and that back of it all, here is the tremendous amount of deals that take place that we do not know just how they effect this price-determining factor, and we ought to know that. We have been unable to get that, and the Federal Trade Commission has also been unable to get that information. I feel that a congressional committee like this, in making an investigation, should be able to get that data. I think that is highly important.

I would like to know if there is dumped into the market a hundred billions bushels of wind a day, how much does that affect 25 carloads of actual wheat that comes in onto that market? Is it

the 25 carloads of actual wheat, that is food, that determines what that wheat is worth, or is the power of men with millions of dollars at their command to trade in there to an extent that the other side can not absorb and force it up or down the way they want to?

Mr. McLAUGHLIN of Michigan. Early in this hearing Mr. Tincher said there had been 14 times as much wheat dealt in as was actually in existence. Mr. Wilson at the same time said he understood it was 40 times. If it were known definitely whether it was 14 or 40, what remedy would you suggest?

Mr. TINCHER. Just a moment, if my colleague will permit me to correct him. I think he must have heard only a part of my statement.

Mr. McLAUGHLIN of Michigan. Fourteen times, was it not?

Mr. TINCHER. My statement was that every bushel of wheat that was produced in these United States had been sold 14 times before one bushel was threshed. My statement was not in any way inconsistent with Mr. Wilson's statement, and I am inclined to think his figures are right, and that up to this time they have sold every bushel 40 times.

Mr. McLAUGHLIN of Michigan. If you knew, Mr. Eckhardt, that it was 14 times or 40 times, would you then be able to answer the question that was asked—what should be done to correct?

Mr. ECKHARDT. If I could follow every one of those deals from the source whence it originated, and could find that there were overlapping sources that had definite designs back of them, and that those sources were the power that was making that price by forcing the price up or down, then I would know whether that short-selling should be prohibited or not. I would want to know those facts about it; whether it is 14 or 40, I do not know. How large that volume is, I do not know. It is claimed by the men on the markets that a large volume of speculation is necessary in order to make a solid market. If those men do not know how large the volume is, how do they know that a large volume is necessary?

Mr. VOIGHT. I think everybody on this committee is satisfied that there is a lot of gambling going on in grain, as a matter of common knowledge. The thing the committee is interested in is to find a way to stop that gambling without injuring legitimate business. Have you any ideas on that subject?

Mr. ECKHARDT. I do not believe that at this time I could make a statement that would lead toward a solution of this problem.

The CHAIRMAN. Are you in favor of wiping out the future trading altogether?

Mr. ECKHARDT. I am positively in favor of absolutely wiping out short-selling, providing a legitimate hedge for hedging purposes can be preserved, if hedging is necessary.

The CHAIRMAN. You want to cut out everything except the hedging, if it can be done with safety?

Mr. ECKHARDT. Absolutely.

Mr. WILSON. Is not hedging gambling?

Mr. ECKHARDT. I expect a good deal of that would depend upon the definition we might place upon gambling.

Mr. WILSON. What is your opinion—we all have our ideas—whether or not hedging is gambling?

Mr. ECKHARDT. My feeling—I will try to illustrate that without debating it at all—that if a farmer wishes to sell grain he is producing, and he is satisfied with the price that a miller or elevator is willing to offer him, that that is a legitimate piece of work, and not gambling; that if that elevator man buys that grain, and in turn wishes to sell it to a miller at a future time of delivery, that that is not gambling or speculating, but offering in a contractual way to deliver a commodity later on—the real thing. That I would count solid, real business.

Mr. WILSON. That would be dealing in futures, would it not?

Mr. ECKHARDT. He would be contracting to sell something in the future; yes. But he would be contracting to sell something—not air.

Mr. WILSON. They contract to sell something or buy something, do they not?

Mr. ECKHARDT. I will venture that ninety-nine out of a hundred who sit in those wire houses are not planning at all to accept the grain that they are purchasing, or intending to furnish the grain that they are selling; that is my guess.

Mr. TINCHER. Let me see if I understand you now. You say that hedging is selling something that a man owns, or that he at least intends to own, and you distinguish between hedging and gambling by saying that gambling in grain is the selling of something that a man does not own and never intends to own when he sells it?

Mr. ECKHARDT. That latter part I will absolutely agree with, in my judgment.

Mr. QUINN. Mr. Chairman, may I ask you a question or two?

The CHAIRMAN. You may.

Mr. QUINN. Your idea is that the intent, if a man expects to deliver the thing he sells, and the man who buys expects to receive the article he buys, that that is a legitimate transaction, whether the material is ready for immediate delivery or not?

Mr. ECKHARDT. I am running a mill as part of the business I am taking care of. When a farmer comes in and says: "Eckhardt, I want to sell you my wheat. What will you give me for it?" "Well, I can pay you so much for it." I am going to use that wheat and he is going to deliver it. I count that an absolutely legitimate, solid transaction.

Mr. QUINN. And the difference, then, between legitimate business is where one sells that which he does not have or never expects to have, and somebody buys that which he never receives and never expects to receive; that is gambling, is it not?

Mr. ECKHARDT. That is gambling; and that part of the transaction forces the market up and down, and I say that is wrong and should be prohibited.

Mr. QUINN. And if it does not force it up and down, it is no barometer for the trade; if it has no effect on the trade it does not show anything?

Mr. ECKHARDT. If it has no effect on the trade and it does not show anything, then why permit gambling?

Mr. QUINN. It does not show anything if it does not affect the market, does it?

Mr. ECKHARDT. No.

Mr. QUINN. And a future market in July corn at $1.57, when the real corn sold at 49 cents, was not trustworthy enough for any amount of business to go on and hedge, was it?

Mr. ECKHARDT. I do not see where it would have done any good, except if he was a gambler——

Mr. QUINN (interposing). I say, no legitimate business man could hedge on that sort of a market?

Mr. ECKHARDT. Of course, we must all admit—and I want that in the record—that we are in times that are abnormal. But the relation has been true in what are called normal times also.

Mr. MCLAUGHLIN of Michigan. I gather from what I have heard here—and I think I knew it before—that a very large part of the transactions on the boards of trade are gambling, pure and simple, by speculators, by men who never have grain and never intend to deliver it, and those who buy have no expectancy of receiving it; that it is just a bet at what the price would be that determined it. I think there is no doubt about that, and I gather, too, that there are men who deal in the actual commodity, who buy and sell, and at times have the stuff on hand.

Some of those men hedge. But you call that a proper transaction, and I have not any doubt but that many of them have no more idea of ever being called upon to deliver the stuff or to take it than have the men on the boards of trade who just gamble and speculate. One is speculation and gambling just the same as the other, under the circumstances I have stated.

Mr. ECKHARDT. I appreciate your point there—the intent back of it.

Mr. MCLAUGHLIN of Michigan. The fact that the man has the stuff and is carrying on legitimate trade in that stuff, and that he hedges, that does not relieve his transaction from the stain of gambling, because in that hedge he has no idea whatever of receiving or delivering the stuff he is dealing in respecting that hedge; is not that true?

Mr. ECKHARDT. It is not, so far as I understand the business. Take the elevator man who is putting in 10,000 bushels of corn, and he counts that he can pretty definitely get cars to ship that within the next 30 days, and he has bought the corn and paid for it. Now, he sells a future against that corn. Now, he is going to try to deliver that corn.

Mr. MCLAUGHLIN of Michigan. Yes, but not on that hedge?

Mr. ECKHARDT. I think you are right from that viewpoint.

Mr. HUTCHINSON. Say, for instance, that I wanted tomorrow to buy a hundred thousand bushels of corn from Armour & Co. to be delivered in July at a certain price, say 70 cents. In May it goes up to $1, and I change my mind and want to sell it. Is that gambling?

Mr. ECKHARDT. Well, you can use that, or you can use the cash grain.

Mr. HUTCHINSON. I asked you a direct question. Do you call that gambling?

Mr. ECKHARDT. I would want to think that through pretty carefully. As I said before, when it gets into the technique and ramifications, others have more knowledge than I. But if it is good for grain, why is not the grain good also for the steel company and good for the Standard Oil Co. and good for the laboring men in the

cities and good for the International Harvesting Co., and why must the men who produce the food and clothing of the world be subject to that sort of machinery?

Mr. WILSON. You want to stop all kinds of gambling; is that it?

Mr. ECKHARDT. I do not see why you should not carry it, if the thing is wrong, to the last ditch, if it affects the labor of people here. What chance does a man down there on the farm have against the millions and even billions of air that can be furnished that affect his whole year's labor? I say that that is fundamentally wrong.

The CHAIRMAN. What have you to say about this transaction. Last October a number of farmers sold corn growing on their farms, for December delivery for 67 cents. Now it is worth, I believe you stated, 49 cents. In Iowa, in my own State, 40. Evidently they made about 50 cents a bushel by selling for future delivery. Those transactions were through the Chicago Board of Trade. You regard that as a legitimate transaction and would not discourage that?

Mr. ECKHARDT. If that grain was being bought by a mill that was going to use it, there is a deal that I think would be perfectly all right.

The CHAIRMAN. But the farmer has no knowledge of who bought it. It was sold on the board of trade.

Mr. ECKHARDT. If he is going to deliver that corn, that is his full plan, and if I am the buyer of that corn, that farmer can not know whether I am going to use that corn to feed or for any other purpose. I can not be responsible for his act. If it is his plan to use that corn, I count that a legitimate dealing and not gambling.

The CHAIRMAN. It is legitimate so far as the farmer and so far as the seller goes?

Mr. ECKHARDT. Yes.

The CHAIRMAN. But, what have you to say to the suggestion made by the representatives of the millers with regard to grain delivered on contract to his mill where it is to be used?

Mr. ECKHARDT. If we did not have the tremendous volume of speculation and did not have the tremendous fluctuations, then would we have to do that hedging work? They do not have to hedge for the manufacture of farming implements nor in the manufacture of our clothing and a thousand other things; and neither do they have a speculative market in it that is moving the commodity up and down.

The CHAIRMAN. What I was getting at is what is delivered on a contract—should there not be something specific as to the quality?

Mr. ECKHARDT. Oh, the grade must be specified, absolutely.

The CHAIRMAN. And limit it to what—the contract grade, for instance, number one or number two or number three northern—would you limit that to number two northern?

Mr. ECKHARDT. I think not.

The CHAIRMAN. How many grades would you make for delivery?

Mr. ECKHARDT. I think that should be determined very largely upon the commercial use of those respective grades, and the difference of price should be determined very largely by the commercial value of the grain delivered.

The CHAIRMAN. That might not answer the purpose. If you were in the milling business you might require certain grades?

Mr. ECKHARDT. Yes, sir.

The CHAIRMAN. Have you given any thought as to the number of grades?

Mr. ECKHARDT. No; it has been my understanding that the grades recently have been fairly satisfactory.

The CHAIRMAN. Are there further questions? We are very grateful to you.

Mr. ECKHARDT. I thank you.

The CHAIRMAN. The committee will now stand adjourned until 10 o'clock to-morrow morning.

(Thereupon, at 4.30 o'clock p. m., the committee adjourned until to-morrow, Thursday, January 6, 1921, at 10 o'clock a. m.)

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FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Thursday, January 6, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

STATEMENT OF MR. WILLIAM G. ECKHARDT, DIRECTOR GRAIN MARKETING DEPARTMENT, ILLINOIS AGRICULTURAL ASSOCIATION, 130 NORTH WELLS STREET, CHICAGO, ILL.—Resumed.

The CHAIRMAN. We will be pleased to hear from you further, Mr. Eckhardt.

Mr. ECKHARDT. I am ready to respond to any further questions that any one desires to ask.

Mr. HUTCHINSON. Mr. Eckhardt, I understand you are a miller?

Mr. ECKHARDT. I run a small mill as manager of it; yes.

Mr. HUTCHINSON. You were appointed a member of this committee of 17, were you not?

Mr. ECKHARDT. Yes, sir.

Mr. HUTCHINSON. Can you tell the committee who the 17 are?

Mr. ECKHARDT. Who the men are on the committee?

Mr. HUTCHINSON. Yes; can you give us a list of them?

Mr. ECKHARDT. Yes; I can give them to you. The committee of 17 consists of Clifford Thorne, of Chicago, of the Farmers' Grain Dealers' Association. That is the Farmers' National Grain Dealers' Association; Mr. Meisch, of Argyle, Minn., president of the Farmers' National Grain Dealers' Association; Adam L. Middleton, Eagle Grove, Iowa, one of the executive officers of the American Cooperate Journal and an officer in the Farmers' Grain Dealers' Association of Iowa; Mr. C. H. Gustafsan, of the Farmers' Union of Nebraska.

Mr. HUTCHINSON. I was just going to suggest that if you can not recall them just now, that you give the names to the reporter later.

Mr. ECKHARDT. Yes; I think I can recall them all, and I think you ought to have whom they represent also. C. H. Gustafson, of the Farmers' Union of Nebraska, chairman; William Hirth, Columbia, Mo., editor of the Missouri Farmer and organizer of the Missouri Farm Club; P. E. Donnell, Waco, Mo., president of the Farmers' Grain Dealers' Association of Missouri; Ralph Snyder, Oskaloosa Kans., grain farmer and stock raiser and officer of the Kansas Farm Bureau Federation; Mr. Bowles, of Liberal, Kans., officer in the Equity of Kansas—I am not sure exactly of the name of that organization he

represents, but it is something on the order of the union and we have a branch of it in Illinois; Don Livingston, Pierre, S. Dak., director of markets for the State of South Dakota; George Livingston, United States Department of Agriculture, Washington, D. C., Chief of the Bureau of Markets, on the committee without vote.

Mr. HUTCHINSON. Is that all of the committee?

Mr. ECKHARDT. No; J. B. Tabor, of Ohio, State master of the grange of Ohio, and W. G. Eckhardt, director of the grain marketing department, Illinois Agricultural Association. If that makes 17 I have named them all, but I may have overlooked some, and if I have I will try to supply them for you.

Mr. HUTCHINSON. How was this committee appointed?

Mr. ECKHARDT. There was a meeting called in Chiacgo in July as a result of preliminary meetings in May. The first preliminary meeting was held in Chicago during the first 10 days of May by officers of the Farm Bureau Federations of Ohio, Illinois, Indiana, Michigan, Wisconsin, Minnesota, South Dakota, Kansas, Nebraska, Iowa, and Missouri, and probably one or two other States. The officers of those federations met in Chicago and one of the problems was grain marketing.

At this meeting we had Norman P. Lambert, a member of the Canadian Council of Agriculture, who told us of the work that had been done in Canada, and pointed out how Canada had marketed its wheat without the exchange system where speculation ran wild during the war. At that time I had planned and was beginning the holding of a series of 15 congressional district meetings in Illinois at which we invited in approximately 250 farmer elevator managers and directors and bankers, and farm bureau officers in the respective congressional districts.

The question of marketing was gone into very thoroughly from every viewpoint we could conceive that might stabilize the market. Following 8 or 10 of these meetings there was held a meeting at Ames, Iowa, by this same midwest group with other farm organizations present, at which the marketing problem was again very thoroughly discussed.

A resolution was passed requesting the president of the American Farm Bureau Federation to call a meeting of all cooperative farmers' organizations interested in the marketing of grain to be held at Chicago July 23 and 24. That meeting was held on July 23 and 24, and by resolution the chairman of that committee was authorized to appoint a committee, not exceeding 17, to be selected by the various organizations, who should investigate thoroughly and report a plan or a number of plans for the national cooperative marketing of grain and report back to the respective organizations for approval of the plans.

This resulted in the appointment of the committee of 17, which held its first meeting in October, the second meeting in November, two meetings in December, and the next meeting will be held in February.

Mr. HUTCHINSON. Have you experts, and everything of that sort, on your committee?

Mr. ECKHARDT. We have experts hired to go into the marketing work.

Mr. HUTCHINSON. That is, you have counsel and experts, and everything you need to investigate this matter?

Mr. ECKHARDT. Yes; we have considerable funds.

Mr. HUTCHINSON. You have a considerable fund?

Mr. ECKHARDT. I am treasurer of the committee, and beg to advise you that in less than four weeks' time various farm organizations pledged approximately $50,000 to meet this type of expense, with the understanding that we would be given that much more any day we asked for it, practically.

Mr. HUTCHINSON. Are any of the men on this committee experienced men in business?

Mr. ECKHARDT. Many of them are.

Mr. HUTCHINSON. In the grain business?

Mr. ECKHARDT. Many of them are in the grain business. Mr. Anderson, of the Cooperative Exchange, at St. Paul; Mr. Gustafson who handles the Farmers' Union work in Nebraska; and many of them are in the grain business in one way or another.

Mr. HUTCHINSON. And you are going to make an exhaustive examination of the subject?

Mr. ECKHARDT. We are trying to get in.

Mr. HUTCHINSON. And you do not expect this committee to formulate a plan within 4 or 5 or 10 days to meet your views, do you?

Mr. ECKHARDT. We have already been at this job since October and we realize the tremendousness of the task, and we realize also a plan must be fundamentally sound and right and equitable and fair.

Mr. HUTCHINSON. Then you would not advise this committee to go to work and test this legislation until you make a report, would you?

Mr. ECKHARDT. It would be very poor taste for me to advise a group of men such as you gentlemen are here.

Mr. HUTCHINSON. But you understand that most of the men on the committee are not practical grain men.

Mr. ECKHARDT. The plans of the committee of 17, of course, are not ready. There is before you men, I feel, one of the greatest and most important pieces of legislation that has ever been before our National Congress, affecting farm folks and consumers. That is my honest conviction. I think this is one of the most far-reaching pieces of legislation that has ever come before you; at least, from the viewpoint I have on the matter.

Mr. HUTCHINSON. The committee here agrees with you about that. It is a very important matter and we do not want to injure anybody or to prevent them from still continuing in legitimate business.

Mr. ECKHARDT. That is true. You will note that I pointed out yesterday three distinct things, one was that you should have brought before you, first, the reports of the Federal Trade Commission who have been investigating this matter. I understand, three or more years of time. That data surely made by a body authorized by your people should be brought here for the most careful consideration of every point in it. They are facts you can do business with.

Mr. HUTCHINSON. That is criticism and not a plan. The Federal Trade Commission does not give us any plan to remedy this.

Mr. ECKHARDT. They give you a lot of data in there that will surely tell you a lot of facts about the grain business and give you

world of information, as I understand it, from their outlines. I had a man at the meeting on June 17th called by the Federal Trade Commission when the grain trade was called in and an outline at that time of what the report should cover was given, and I am sure that if that outline is any index, that there will be a world of information that bears directly on future trading.

Mr. McKinley. Mr. Eckhardt, let me correct you in one respect. Congress did not appoint the Federal Trade Commission.

Mr. Eckhardt. It is authorized by law.

Mr. McKinley. But Mr. Wilson appointed it.

Mr. Eckhardt. Yes.

Mr. McKinley. And some people have not as much confidence in the Federal Trade Commission personnel as Mr. Wilson has.

Mr. Eckhardt. Yes; but nevertheless data that is brought together——

Mr. McKinley (interposing). A good deal of it a good many people do not believe because of the personnel of the commission.

Mr. Eckhardt. I see your point. Of course, that criticism could be made if you were to appoint 10 men here to investigate it, and the men who are against the thing would find fault. There are two ways of attacking a thing, one is to attack men and the other is to attack the principles of the plan. You have those two methods of destruction. The other thing I pointed out was that there should be an investigation that would disclose the minutest details of cause and effect of the trades that take place in our present exchanges. That was the second point I made.

Mr. Tincher. I would suggest, Mr. Chairman, that it probably will not be necessary to repeat all the testimony given yesterday by this witness. There are a number of other witnesses here to be heard.

Mr. Hutchinson. I do not want that. I want to ask you one more question, Mr. Eckhardt. Your committee has been in session several times since October?

Mr. Eckhardt. Yes.

Mr. Dickinson. How long do you think it will be before you will be able to report?

Mr. Eckhardt. That would be a mere guess. I am just giving my own viewpoint and, of course, I can not speak for any other member of the committee, but I feel that a plan, fairly complete in its outline, not in detail, will be ready in February or March.

Mr. Hutchinson. Of this year?

Mr. Eckhardt. Yes; that is the way I feel about it, and yet it may be six months later; but I feel that February or March will see things shaping toward a definite plan for the national cooperative marketing of grain.

Mr. Hutchinson. Then you do not feel that this committee in a short time by hearing people talk can get down to the real facts in the case like you can with real experts?

Mr. Eckhardt. I do not believe I could answer that for you. I go back again and say it would be very immodest for me to suggest that we could do work that you men could not do, although we have some very exceedingly able men.

Mr. Hutchinson. That is all I want to ask.

Mr. Dickinson. Your committee of 17 is to cover the entire system of marketing, is it not?

Mr. ECKHARDT. Yes.

Mr. DICKINSON. You are not dealing just with future marketing, are you?

Mr. ECKHARDT. We are counting on a complete merchandising system of grain.

Mr. TINCHER. Let me see if I understand you. Do you suggest that the committee recess until your committee completes its work? Is that the understanding I am to have from Mr. Hutchinson's questions?

Mr. ECKHARDT. I surely did not intend to suggest anything of that sort.

Mr. TINCHER. You are testifying now pertaining to legislation that is before this committee.

Mr. ECKHARDT. Yes.

Mr. TINCHER. You have suggested that we wait for certain findings by the Federal Trade Commission. I want to suggest to you that if you will notice this book here, you will see that we had hearings and that the Federal Trade Commission have made a complete report. Some of the gentlemen who have examined you and are so willing to wait a couple of years for your committee of 17 to report before we have any farmer legislation would not follow the Federal Trade Commission at all, and when your committee of 17 gets back here with your report, you will find these men who are so solicitous about your report now willing to treat it exactly as they have always treated the specific findings of the Federal Trade Commission.

Mr. WILSON. We hope this committee of 17 is a different kind of committee from the Federal Trade Commission.

Mr. MCKINLEY. I have a great deal more confidence in your committee of 17.

Mr. HUTCHINSON. What relationship is there between this committee and the Federal Trade Commission?

Mr. TINCHER. If you ask me the question, I suspect it will be argued in this committee before we report out a bill or fail to report out a bill that a man representing a committee of 17 stood before the committee and said that they had more means of getting information than we had, and more knowledge than we had, and that my constituents out at Liberal, who are on the committee, knew more about it than I did, and that we must not act until the committee of 17, representing the real farmers, reported. I know what is going to happen in this committee after you are gone. That is all.

The CHAIRMAN. I want to be sure about your attitude toward these exchanges. What is your suggestion as to future trading? Are you in favor of doing away with the exchanges entirely or continuing them along certain lines.

Mr. ECKHARDT. I tried to give very clearly in my statement yesterday my attitude that if the legitimate hedge in real grain can be maintained without destroying the marketing facilities, that I am absolutely in favor of eliminating all short sales. I gave it in approximately those words, I think, although I gave it just a little better yesterday.

The CHAIRMAN. Can you, then, give us a definition of hedging? If, as you will recall, Mr. Reynolds, who has given this matter a good deal of thought, stated before this committee that in his

opinion he did not believe a bill could be drafted differentiating between the various operations; that is, between hedging and speculation or gambling.

Mr. ECKHARDT. There are fine distinctions there that I think there is no end of controversy in sight about, as regards where you leave off legitimate dealing and go into speculative dealing, and it is not within my province to be of much help to your committee in defining those various phases.

The CHAIRMAN. Would you limit hedging to the actual dealing between the producer and the consumer?

Mr. ECKHARDT. I do not believe I am prepared to answer that. What I would like to do is to give you information that would do you some good. On that basis I do not believe I could give you information that would be of nearly as much help as men in the grain business who are making use of that business from their viewpoint. So far as the farmer is concerned, it is no insurance to him, and he is the man I am looking out for. It has not helped the farmer any who pays $1.13 a bushel to raise corn to sell at 49 cents. It does not provide any insurance for him.

The CHAIRMAN. I believe that it is difficult to find the line of demarcation. Several have attempted to define that line, but so far as I have been able to find out, no one can do that to my satisfaction.

Mr. ECKHARDT. I do not known the line, Mr. Chairman.

Mr. HUTCHINSON. Mr. Eckhardt, right there, is your committee proposing to take up that question and define hedging?

Mr. ECKHARDT. Your question is going to lead me into a discussion of a plan that I can not discuss, Mr. Chairman.

Mr. HUTCHINSON. Never mind, then. You need not answer the question unless you want to.

Mr. ECKHARDT. I would like to very much. I would like to be very frank with you.

The CHAIRMAN. I appreciate the difficulty, but you have given a good deal of thought to the matter and I thought probably you might offer some suggestion that might be of value.

Mr. MCLAUGHLIN of Nebraska. As to the insurance advantages of hedging, I would like to ask you whether as one member of a committee of 17 you would consider it to your advantage to have heavy insurance on your residence property, and have all the insurance carried in the name of the other 16 of your members and none of it in your name?

Mr. ECKHARDT. It is my judgment that we all should share equally in the proportion to our interest in the matter.

Mr. MCLAUGHLIN of Nebraska. Is not that about the insurance proposed, so far as this is concerned?

Mr. ECKHARDT. You might have an insurance here that would be an insurance to a man in the grain business that would be no insurance whatever to a producer or consumer.

Mr. MCLAUGHLIN of Nebraska. Is it not any insurance to the producer or consumer?

Mr. ECKHARDT. I have two farms and I do not see where I get any insurance or ever have.

Mr. MCLAUGHLIN of Nebraska. The insurance is in favor of the man who produces nothing?

Mr. ECKHARDT. I would not exactly say that, because I look upon the man who handles a large volume of grain as doing a great insurance business, but why should an insurance system be worked out that will just relieve him and the basis of that insurance be the price determining machinery that shall determine the labor return for the corn raised. We can have thousands of evidence that the machinery is manipulated so as to manipulate the markets against the farmers or the consumers as it may suit the will of the trader.

Mr. PURNELL. You do not agree with the witness who yesterday said that hedging while not participated in by the miller or farmer really inures to their benefit, the benefit of the grain dealer and the farmer? Mr. Reynolds testified yesterday that he did not do any hedging himself, but that the hedging was reflected in his business and that he got the benefit of it and also the farmer and producer?

Mr. ECKHARDT. Suppose there is a hedge for a sale for six months from now or four months from now of grain bought at a price 25 per cent less than the actual cost in labor to produce and the other elements that entered into its production, then the various fellows holding the hedge between that man and the farmer were absolutely sure that the farmer would have to take whatever was given to him and the hedge was made by a price determining machinery that had no regard for labor. That is the point I am trying to make. The thing that we want to get back here is when you reach that part of the machinery that makes the hedge, does that represent the true law of supply and demand, based on world-wide conditions, or does it represent the tug-of-war between two mammoth gambling forces not directed by intelligence, but by the force of money to gamble as to what shall be received for that commodity?

Mr. PURNELL. The hedge sometimes might be the means of producing the market. In other words, if some purchaser higher up could not hedge he might not buy the visible supply and in the end the farmer must sell to get the money?

Mr. ECKHARDT. That has been used so much until it is worn out. I notice that the big people that build the large bridges and buildings do not have to have a hedging system to divide their steel. I know that the tremendous business of banking does not have to have a hedging system to place its money.

Mr. MCKINLEY. For instance, we will say that a man is going to build a bride across the Mississippi River that will take a million dollars worth of steel; he goes right to the manufacturers and buys it?

Mr. ECKHARDT. Yes, sir.

Mr. MCKINLEY. And so he does not have the need of hedging?

Mr. ECKHARDT. That is it exactly. Why does not the dealer who buys grain do the same thing?

Mr. MCKINLEY. Let me ask you a question which I asked the other day and which is an absolutely practical question, I think. Take in my district, at Decatur, is the Staley Starch Co. that uses more than a million bushels of corn, as you know, every month. The Staley Starch Co. will want to use a million bushels of corn next September. The farmer who has the corn now wants to sell it to get his money. In your bridge proposition the man who wants to build the bridge goes right to the manufacturer and he rolls the steel out of the iron, but the Staley Starch Co. can not pay the

farmer or farmers the money for the million bushels of corn that it needs next September because it has not the money. Who is going to put the cash in to carry it from the time that the farmer sells the corn until next September?

Mr. ECKHARDT. I get your point, Mr. McKinley. If it is not necessary in all of these other businesses, I can not see why we have to build up an institution whereby we have 40, probably 100, times as many deals as in the handling of cash grain and afford those facilities simply to make a very large business for the Staley Starch Co. and not give a damn for the man down on the farm.

Mr. MCKINLEY. That is not an answer to the question. What I asked was what you were going to work out in your committee when you have had more time—what we have to consider when we have to pass a bill of some kind is what kind of an arrangement is to be made and who will furnish the cash for this corn from the 1st of January until the next September?

Mr. ECKHARDT. My answer to that would be, if I was buying that grain, I would go to the Armour Grain Co. and would say to Mr. Armour, "What can you furnish this grain for?" And Mr. Armour would say that he could furnish it at a certain price. Mr. Armour takes a margin large enough there, sizes up every class, and contracts according to the production. I think that would be my answer.

Now, gentlemen, by eliminating all the need of this complicated machinery of speculation which becomes the price determining factor, you have a real thing dealt in between Mr. Staley and the farmers in Iowa, Illinois, and all the rest of the country. The farmer would say to his local agent what he is willing to take. There would be bartering in real stuff, and Mr. Armour would say, "I can furnish it to you at this price."

Mr. MCKINLEY. Would you control Mr. Armour as to the profit that he should make?

Mr. ECKHARDT. That would control a good deal. Armour handles, according to reports, approximately 25 per cent.

Mr. MCKINLEY. I was asking after the profit in furnishing the 1,000,000 bushels. That is the whole trouble, what the farmer gets and what the consumer pays.

Mr. ECKHARDT. At the same time that Armour is dealing with these respective people there are some six or eight thousand other elevator companies in the United States and Mr. Staley could say direct to those men, "How much will you furnish this grain for," and make the deal direct with the local community, the people that are handling that commodity.

Mr. MCKINLEY. Who is going to furnish the money? Will these six or eight thousand elevator men carry it from the 1st of January to the 1st of September?

Mr. ECKHARDT. In that case he does not want it all at one time.

Mr. MCKINLEY. He wants a million bushels on the 1st of September?

Mr. ECKHARDT. That is one-twelfth, a million bushels a month, and he will find enough to furnish the million bushels in September, enough to carry him through the entire year.

Mr. MCKINLEY. Can you furnish us with the words that we can put into a law?

Mr. ECKHARDT. I wish, Mr. McKinley, that I understood the law well enough to do that, but that is not within my province. I appreciate very deeply the tremendous task you have before you. I have read the laws as far as I can understand them, but I think it will take men who understand the law much better than I do to give you constructive advice on that line.

Mr. DICKINSON. Does the man who wants pork and beef have any protection of the kind that Mr. McKinley has referred to in the grain trade in future dealings?

Mr. ECKHARDT. No; he has to buy on the market as it comes in.

Mr. DICKINSON. The amount involved in beef and pork is much greater than in the Staley starch factory?

Mr. ECKHARDT. The farmers like it very much; it makes a lot of market for grain. The Staley starch factory represents a tremendous business, and it represents much else.

Mr. DICKINSON. If legislation is necessary by this committee and it is found that in order to protect the producer and consumer you must interfere slightly with the miller and the starch company factory, which do you think should have the protection of this committee.

Mr. ECKHARDT. There is no question in my mind, I am sure, but that these 98 growers and producers should have the right over the two men who stand between them. That is my own feeling of it, to stand for the welfare of the larger number; but can not a system be worked out so that we can all work along together, without interference and with justice to every element in the land? I hope that can be done.

The CHAIRMAN. If it is necessary for a starch company to have the benefit of the hedge, it would also be necessary for the packer to have the same privilege, to provide for a future supply of live stock. The live stock industry is as much important as the starch company.

Mr. MCKINLEY: I think the gentlemen have an entirely wrong opinion of what I am trying to get at. I am not taking care of the starch company. The corn that they use they will not use until next January and somebody has to own it between now and that time. What I am trying to ascertain is who is going to own it between the first of January and the first of September?

Mr. CHAIRMAN: The same rule applies to the packers?

Mr. ECKHARDT: Yes, sir.

Mr. DICKINSON: The monthly sales of corn show very slight variation on the Chicago market during the entire year, with a little surplus in December and January, but the other months run very similar. I shall be glad to put in the record, if it is the desire of the Committee, a statement that shows the sales of corn on the market.

Mr. MCKINLEY: It has been sold 40 times, as they say, then?

Mr. DICKINSON: This is actually spot corn that I am talking about.

The CHAIRMAN: If it is necessary for the farmer to have the privilege of the hedge, it is certainly necessary then that he should have a market for his live stock so that it may be disposed of when ready for market. The live stock must be marketed when ready and can not be kept over, but grain can be kept from year to year. I think it is more important than the grain.

Mr. PURNELL: I am somewhat interested in Mr. McKinley's question. When the farmer's corn is ready for the market, he wants to market it and get his money?

Mr. ECKHARDT: Yes, sir.

Mr. PURNELL: And to pay bills and to pay up notes at the bank and so forth. That is in the fall. Here, is this starch factory or some other consumer who does not want to use it for six or seven months and they will not buy until they need to use it, they do not want to carry it that time. The farmer wants the money and does not want to carry the corn for six or eight months. During that period of time, as Mr. McKinley contends, who holds the sack, assuming that the farmer gets his money which he ought to have?

Mr. ECKHARDT: I get your point.

Mr. PURNELL: I am very anxious, just as anxious as you are, to weed out the objectionable gambling features in this whole system.

Mr. ECKHARDT: Yes, sir.

Mr. PURNELL: But I want to do what is essentially necessary for the protection of the producer.

Mr. ECKHARDT: I think I can answer your question. In the first place, the farmer does not sell his corn in just a few days or a few months, but he sells his corn distributed fairly well throughout the year. I shall prove that to you.

Mr. PURNELL: Sometimes that is true and at other times a man must sell his entire crop immediately to realize money?

Mr. ECKHARDT. An individual farmer does, but the farmers as a whole do not, because there was produced this year over 3,000,000,000 bushels of corn. In Chicago alone there is only about 56,000,000 bushels storage capacity of corn, the total amount of storage capacity. There is not half of it used, not much over 25 per cent of the capacity that is actually used, and that is used for barley, rye, corn, wheat and oats, not for corn alone. In other words, there is no time that any concern like the Armour Grain Co. carries any large amount of grain from December or January until the Staley Starch Co. wants the corn delivered to them. That grain is constantly moving on the market. I think I have proof that is absolutely conclusive. Another thing, the farmers send their corn to market so that they can get that work done without interfering with the regular work on the farm and they can do that work also when the roads are impassible, like they are in Champaign County, and so there is an interval. In another section of the State there will be a different period. The result of that is that the corn is hauled to market in such a way that it results in a fairly steady supply of corn from the farmer to the market as it is needed. Now, the total storage capacity that we have for it is only a drop in the market. The farmer has to carry that stuff.

Mr. PURNELL. But you take the farmer who can not carry it. I have hundreds of small farmers in my district who sell their corn immediately. Some of it is sold before completed and they get the money on it. Somebody has to carry that load.

Mr. ECKHARDT. The total of the group selling it in that way is not more than the amount of corn that needs to come on the market at that time. It is being carried.

Mr. PURNELL. Suppose that the local elevator is full and that the local elevator man can not get cars and the man's product is backed up on his farm and he wants to sell it, are you going to deny the right of the local elevator man to sell or hedge in the market to provide a market for this fellow who has the product backed up on his farm?

Mr. ECKHARDT. If he can not get use of the elevator, he has to. Take Carl Vrooman, who was the Assistant Secretary of Agriculture, and who has a large farm near Bloomington. Mr. Vrooman tried to sell his corn month in and month out and he could not. When it was $1.50 a bushel he tried to get cars to ship and he could not. Then he tried again to sell it when it came down to a dollar, and he could not. He had some 20,000 bushels. There is a typical case. The farmers in that district could not sell their corn and they had to hold it and they have held it.

Mr. MCKINLEY. Is that a good condition?

Mr. ECKHARDT. No, sir.

Mr. MCKINLEY. If you take away all the markets would not that create a bad condition, that the farmer could only sell when somebody wanted to buy?

Mr. ECKHARDT. We are not taking away, I hope, the cash market, the same cash market that we have had. We are surely not taking that away.

Mr. PURNELL. I do not want to make it impossible for a farmer to sell his corn until he has actual facilities for shipping it out of the country?

Mr. ECKHARDT. But I think this, gentlemen, that you have exactly the same cash market. The total storage capacity for the cash material that comes in is very small compared to the total volume of business. You have at Chicago alone annually 600,000,000 bushels of grain, and the total storage capacity is only 56,000,000 bushels. That has to be used over and over again during the year.

Mr. MCKINLEY. You know more about that than I do. It is your business. Everybody knows their own business best. Does not the opportunity to sell, call them future sales or whatever you please, does not the opportunity to sell stabilize prices more than if a farmer should only come in to-day and somebody wanted to buy it?

Mr. ECKHARDT. Mr. McKinley, in the grain trade——

Mr. MCKINLEY (interposing). What do you think?

Mr. ECKHARDT. My judgment is that it is a piece of machinery that is subject to the manuipulation of the big men to suit their will. It is my judgment that between individual sales it may stabilize prices just slightly. There are spreads between the sales that come in this minute and the sales that come in 30 seconds from now. You have a steady flow there. It is my judgment that it is possible for men to so organize themselves that they can sell that market up and down to suit their will. Just as the testimony which I gave here yesterday—you were not present—a report was made by a certain man who was drawing grain from some 30 elevator companies; two days before there was a drop of 23 cents in cash grain. "Do not buy anything, under any circumstances, the next two days." It was possible for a man to make a profit of 35 cents a bushel on

that grain, because of the tremendous loss to the farmers. That was a case where somebody knew and sent down the line that they should not buy grain. This piece of machinery is manipulated, in my judgment.

Mr. HUTCHINSON. What authority did that man have to tell that?

Mr. ECKHARDT. He is going to lose his job.

Mr. HUTCHINSON. I will tell you of a little instance in flour. A certain man who had been in charge of the food control was invited down to Philadelphia recently to a dinner and in his speech to all the bakers of the country he advised everybody to buy flour and they loaded up with millions of barrels. There were about 87,000 barrels bought at $13 or $14. That man had no authority. He made a mistake. Do you think that is a fair proposition?

Mr. ECKHARDT. If I had tried I could have gotten together enough illustrations to have filled a book about half as big as this book here [indicating].

Mr. HUTCHINSON. I think these people should know it.

Mr. ECKHARDT. Getting right back to the point, they should follow those deals, every one of the deals made on that market from A to Z, and study their cause. Then you would have a true basis to work on. That is something that no man has yet been able to get. The exchanges themselves say that they do not have it, they do not go into the details of getting that information. You and I, I am sure, both should have that information.

Mr. HUTCHINSON. The information which this prominent man gave at this dinner loaded up all the bakers in the country with thousands of barrels of flour on the theory that it was going higher and it has gone down $5 or $6 a barrel.

Mr. HULINGS. In the lumber business or the coal business or the furniture business do they have a system whereby they make short sales and gamble in the commodity?

Mr. ECKHARDT. No, sir.

Mr. HULINGS. Is it necessary?

Mr. ECKHARDT. The volume of coal is tremendously large, probably as large as the volume of grain that is handled. It is necessary there.

Mr. HULINGS. Do you believe that the process that is used in any of these commodities, grain, corn, and wheat, is the consensus of opinion of those best informed as to the value of the stock and the consensus of opinion between the men who want to buy and the men who want to sell it; or is it a fixed-up thing, subject to manipulation and unaffected by supply and demand?

Mr. ECKHARDT. I wish before I close that I could get back to the point that I was making. It is my feeling, positively, when I go into the bucket shop, as they call it—I do not suppose they call it that now, to the wire house, and see a group of people there dealing in corn, that those men do not represent the high intelligence of the people of the United States, and yet they have their influence in fixing the price which the farmer has to take for this stuff. It is impossible for me to believe that those men represent the man who knows himself the true value of the grain. I resent that end of it tremendously.

Mr. TINCHER. I want to ask you a question or two about the Staley Starch Co., and in asking the question I do not wish to reflect upon the company, because I have no doubt in the world that its standing is high from the statement of Mr. McKinley, but do you know of anyone who proposes any legislation that would require the Staley Starch Co. to purchase its corn differently from the way they are doing now?

Mr. ECKHARDT. No, sir.

Mr. TINCHER. The Staley Starch Co., as I understand it, buy their corn in the fall of the year for the entire year?

Mr. ECKHARDT. Yes, sir.

Mr. TINCHER. And it is contended by some that the fact that a few men have the right to gamble in grain futures gives the Staley Starch Co. a more positive credit than it would have if the gambling in corn futures was destroyed. Is that your understanding of the matter?

Mr. ECKHARDT. I do not know individually of anybody interested in the business suggesting that.

Mr. TINCHER. Mr. McKinley——

Mr. McKINLEY (interposing). You are putting words in my mouth right now.

Mr. TINCHER. No. I never said that you said that, I said that Mr. McKinley suggests that if we do away with futures in grain it would not have a tendency to work a hardship upon the starch company.

Mr. McKINLEY. No; I did not say that.

Mr. TINCHER. To buy corn for future delivery instead of buying it and paying for it.

Mr. McKINLEY. You have the wrong idea. What I was trying to get at——

Mr. TINCHER (interposing). I do not want to interfere, of course.

Mr. McKINLEY. I understand. What I was trying to suggest was that there is a time going on, from 1 month to 11 months, between the producer and the consumer, that someone has to own the product.

Mr. TINCHER. You do not contend that the grain gamblers own the product and furnish that credit. They do not do it now. My proposition is, if it is necessary to have gambling in grain futures in order to make sure that the Staley Starch Co. can buy a year's supply of corn at the low time—at the time Mr. Purnell speaks of when the farmer must sell a great quantity of corn—and hold it for their entire year's output without paying for it, then the Staley Starch Co. ought to sell their products based on the price at the low time which, with all their recommendations, I doubt whether they do.

Mr. McKINLEY. I do not believe the Staley Starch Co. buys a year's supply at a time.

Mr. TINCHER. Is it not a fair inference, then, that the Staley Starch Co., the same as any milling company milling wheat, have a line of credit that will enable it to buy all the corn for future delivery that they would probably need without maintaining a gambling institution at Chicago that you think is able to fix the prices of the farmers products by manipulation?

Mr. ECKHARDT. Getting back into the whole situation, it seems to me that Mr. Staley has got to take the cash grain just as it flows today without very much change. It seems to me also that we do not

want to do anything that will prevent Mr. Staley, if he has an opportunity to sell abroad a large amount of corn products, contracting for all the corn based upon that future sale, if he can get it. I think Mr. Staley ought to have that right, or he could not do business and give his people employment. On the other hand, let him deal in the real thing; let him buy corn. We have got the corn in the States.

Mr. TINCHER. Let me ask you right there, do you think a bill that provides that Mr. Staley, or people in Mr. Staley's situation, may buy and sell three times the amount of corn they contemplate using or have used in the past would be fair protection for Mr. Staley?

Mr. ECKHARDT. I feel——

Mr. TINCHER (interposing). Will you answer that question?

Mr. ECKHARDT. I will answer it in this way: I believe you will have men before your committee here who can go into the technique of that and give you information much more reliable than I can give.

Mr. TINCHER. We do not need to go into the technique. Do you think that allowing him to buy three times what he expects to use and has used and will use, and letting him sell three times what he has used or what he will use is enough, or do you think it ought to be made five or ten times as much?

Mr. ECKHARDT. If you want to know what I feel about it, I feel he ought to have the right to buy all he can use.

Mr. TINCHER. Do you think three times the amount would be enough?

Mr. ECKHARDT. I say just what he needs. I do not see any need for anything more.

Mr. HUTCHINSON. Do you think Mr. Staley would carry a million bushels of corn without hedging?

Mr. ECKHARDT. Not the way we are marketing to-day.

Mr. HUTCHINSON. It would not be safe?

Mr. ECKHARDT. Under our present system, where the market goes like this [indicating], I can not see how any man could put up that much. The only man who has to stand that is the bumper down on the farm, and he has no way of protecting himself.

Mr. TINCHER. Do you know who fixes the prices of Mr. Staley's products? Is there gambling in the products that Mr. Staley manufactures?

Mr. ECKHARDT. I do not know that there is.

Mr. TINCHER. What does he manufacture? I take it he manufactures something besides pure starch.

Mr. ECKHARDT. I judge he manufactures starch and probably manufactures corn syrup, but I do not know whether that is manufactured in the Staley plant or not. That is one by-product of corn, and there are many by-products like breakfast foods. I understand Mr. Staley has largely a starch factory.

Mr. McKINLEY. I do not know what he makes, but it is a tremendous plant.

Mr. ECKHARDT. It is a tremendous institution and of the very highest standing.

Mr. TINCHER. The chances are he has something to do with fixing the prices of his own products, and is not governed in his prices by a few Chicago gamblers who fix the prices of his products.

Mr. ECKHARDT. In knowing what he can get the corn for, he knows definitely what margin he can work on and sell the finished

products, and a plant as large as Mr. Staley's can operate surely much safer if he can work on a contract that covers a considerable period.

Mr. TINCHER. I still think the whole proposition gets back to the proposition of whether we should maintain a board of trade in Chicago to trade in grain futures, and permit them to trade in grain futures, and gamble in grain futures, for the purpose of maintaining a proper credit system for Mr. Staley.

The CHAIRMAN. Is that all, Mr. Eckhardt?

Mr. ECKHARDT. Yes, sir.

The CHAIRMAN. Thank you, sir. We will now hear Senator Caraway.

STATEMENT OF HON. THADDEUS H. CARAWAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS, AND SENATOR-ELECT FROM THAT STATE.

Mr. CARAWAY. Mr. Chairman and gentlemen of the committee, I come before your committee with some hesitancy because I have no expert information to give. In the beginning permit me to say that if the committee intends to wait until it has scientific information to show the effect of each deal in futures upon the marketing of the product before it acts, it will never enact any legislation.

I recall that for at least a quarter of a century when the struggle was going on between those who thought we ought to be a Nation drunk and those who thought we ought to be a Nation sober, the question whether whisky was necessary could never be determined; because one doctor would swear you would die without it, and another you would die with it; and Congress said that, inasmuch as they could not believe both of them, they would believe neither and not act at all.

I am astonished also that the tendency of the questions here asked seems to suggest that it rests upon the farmers to show, first, exactly what effect the legislation will have upon every industry, and then put into the hands of Congress the exact language in which the law should be written. It seems to me that when 220,000 people have intrusted you with a commission, that you ought to be able when you know an evil exists to suggest the remedy yourselves. I practiced law before I came to Congress, and sometimes defended criminals if they were able to pay, and I thought that when my client told me what his resources were that it was my duty to find out some way to keep him from hanging. When the farmer comes here, and tells you what we already know—that he is being destroyed; if we then, as his representatives, are going to sit down and say, "Well, we know that, but we are not going to move until you can tell us just what we ought to do": that the best thing he can do when he gets the chance would be to select some other as his representative.

That way of proceeding would be treating the farmer somewhat like the two negro preachers down in Mississippi County, in my district, this fall, who were talking, and one said to the other "Brother, do you reckon the Lord knows how the white folks are taking our cotton away from us and still leaving us in debt?" and the other one said, "Surely, surely he knows, but the trouble is, brother, he don't give a damn."

Now, we know that somebody is destroying the farmer, and if we insist that we are not going to act until the farmer tells us what we ought to do, I think he is very likely to go back and make the same answer that the negro made about the white man getting his cotton.

I am interested in the question that Mr. McKinley asked over and over again, If the gambling in futures were destroyed, what would become of the Staley Starch Co.?

Mr. McKinley. I object to your making that statement, that I asked if gambling in futures was stopped——

Mr. Caraway (interposing). I am willing for the gentleman to use his own language, but I know what his question imports and everybody else knows that the man who sells the Staley Starch Co. futures, or to whom it sells, knows that that man is not going to deliver it a bushel of corn, or if it has sold a bushel as a hedge, it is not going to deliver a bushel of corn. If a man deals in something that does not exist but bets it will be up or down, I do not know whether he is a gambler or not. I had always thought he was.

Mr. McKinley. If a man buys a bushel of corn on the 1st of January and takes his chances about selling it later, is he not a gambler?

Mr. Caraway. If a man who buys a hog to ship to the Chicago market and pays 5 cents a pound for it and hopes to get 7 cents when it reaches the market is a gambler, your statement makes the other man a gambler; but if there is no difference between a legitimate transaction where a man buys an actually existing product and puts it on the market and the man who sells something he never had, he would not know if he saw it, never expects to have, to a man who never wanted it and never expects to receive it, then I will admit that I do not know what gambling is. But here is what I do know, and the gentleman from Illinois knows it, that if the Staley Starch Co. wants to buy corn in January for June delivery and does not want to take the actual corn because it is not able to furnish the cash, some one must supply it, and I am curious to know who does furnish it. I would like for the gentleman to tell me that.

Mr. McKinley. I have got the wrong impression put forward here. I do not think the Staley Starch Co. wants to buy that corn in January and use it in June. If they want to use it in June they want to buy it in June. My question was what vehicle we would have to own the corn between the 1st of January and the 1st of June; not that the Staley Starch Co. wanted to buy any fuures.

Mr. Caraway. I understood the gentleman's question entirely erroneously, because the gentleman kept on saying that the Staley Starch Co. wanted to contract for corn.

Mr. McKinley. No, I beg your pardon.

Mr. Caraway. Then the Staley Starch Co. has nothing to do with the case.

Mr. McKinley. No; nothing at all.

Mr. Caraway. I know this, and the gentleman knows it; I know that it is easy under present marketing conditions for the people who want to use the raw product and the manipulators of the market to enter into an agreement by which the man who is ultimately

to use the product and the man who simply wants to gamble in th price of it can agree and ruin both the producer and consumer.

I am going to speak now about cotton because I am not much of grain farmer. In my section of the country we work 12 months i the year to grow cotton, and then with whatever we get out of it w go to Illinois and buy corn and meat, and it sometimes looks as if th people from whom we buy do not care whether we have any resource with which to buy. But I know this is true, and I have watched i since legislation has gone out through this committee more nearly en abling the market to be controlled than under both the old and th new system, that when the farmer has something to sell there is n market for it; but when he is being stimulated to produce somethin there is a future market that is unusually strong and high, but a soon as he gets his crop planted and his product begins to approac the stage of maturity the market falls off.

In cotton, for instance, the best price of cotton is always at th time when there is no cotton in the hands of the farmer and not seed in the ground to grow another crop; when no living man know how many bales will be produced, not even how many acres will b planted, nor how much demand there will be for cotton. Right the these exchanges register that cotton is worth more than at any othe time.

Last year, before there was any cotton planted, October and No vember of this year cotton was up above 40 cents a pound. Now, thi price-registering machine did not know how many acres would b planted, did not know within 5,000,000 bales how many bales woul be grown, did not know within 5,000,000 bales how many bales woul be required, fixed a price for cotton. It had a registration day in an day out of October and November cotton when there was not a see in the ground and nobody knew how many would be planted. I was from 40 to 42 and 43 cents. It encouraged the farmers t plant a big crop, paying an enormous price for labor and fo materials in order to grow a crop, and this very crop, now that thos gamblers were selling in February and March last year at 40 cent a pound, is on the market at 10 cents a pound, and you can no find a buyer. It cost the farmer 30 cents a pound to grow it and h paid it because he had no more sense than to imagine—and I happe to have been one of them—that this index fixing machine saying co ton next October and November would be worth 40 cents a poun knew what it was talking about. It is worth less than 10 cents nov and I know, and everybody knows, if he just takes time to think, tha with a machine that undertakes to fix a price for a product that do not exist, when it does not know how much of that product there wi be or how much is going to be consumed, and yet when a man goe into that market and offers to sell you more than he knows can b produced or will be produced, there is one of two things certain, tha he knows that back somewhere he has got the power to manipula that market or else he is just a fool; and since he has got money, know he is not a fool; and therefore I know there is not an exchang in the world that could exist unless it had some power to fix an manipulate prices.

We have all gone to a country fair and have seen some fellow wit a wheel who is telling you that he is a poor, unfortunate fellow, wh always loses, but his love for taking a chance just compels him t

go ahead and offer you an opportunity to take away everything he has, and there is not a man here who at some time or other has not taken him at his word and lost what he had.

Mr. WILSON. Speak for yourself, John.

Mr. CARAWAY. I am going to speak for both myself and the gentleman who interrupted me with equal authority for both of us.

Mr. TINCHER. There might be an exception in the case of the gentleman from Illinois. He may have broken the machine.

Mr. CARAWAY. No, he did not. He may have broken something else, but he never broke that sort of machine.

There is such a broad line of demarcation between the right to hedge and the present exchange system, against which the legislation now under consideration is directed, that the two questions are not involved at all.

Nobody will say that a man who expects to have the very article that he sells ought not to have the right to sell it. There is no legislation anywhere aimed at that sort of a transaction. If the Staley Starch Co. wants to protect itself, there is not anybody who would object to its going to grain elevators and saying, "I am going to need 1,000,000 bushels of corn in June and I want you to sell it to me." There is nobody who would object to the elevator selling it to it, if, in return, the elevator company went to somebody who was growing the grain and bought it to be delivered when it was matured. Nobody would complain of that and there is not any power in Congress to prevent that sort of transaction.

Men have the right to deal in the things which they honestly own, whether they are actually in possession or not, and Congress could not prevent them from doing it, and nobody seeks to prevent it; but I do know this, and everybody else knows it, that instead of going to the elevator and contracting for the grain as he may need it and letting the elevator go to the farmer and in turn contract with him, which would make a good faith transaction and which would give the farmer an opportunity to share in whatever price the Staley Starch Co. was to pay, there would be a future market for the farmer if he wanted to sell his grain. If it were just planted and if he thinks he will have 1,000 bushels of corn to sell in the coming season, he could go to the elevator man and sell it, and the elevator man in turn could sell it to the starch company and it would be a good faith-transaction and the farmer would be the beneficiary as well as the elevator man who would get his commission, and the starch company who would be assured of the grain when it needed it. But, on the other hand, if grain is like cotton, it is done this way: The spinner can go to the bear in the cotton market, as he does, and says to him, "I am going to need cotton next summer. If you will agree to let me have it or pay me the commercial difference (and that is what they all undertake to do) I will stay out of the market now, when the farmer has got his cotton to sell and let the price sag and sag, and you can give me my cotton at that price upon which we may agree and we can both make money," and that is what they do.

I have noticed ever since we have had the legislation on the statute books and before that when the cotton was in the hands of the farmer to be sold there was no market. That was true last year and it was

true this year. I have in my possession a letter I got the other day from a man who carried over 600 bales of cotton, offering it on the market every day at the market quotations, from last year up until this time, and has gone broke trying to find a market for it.

The spinner can go to the bear and they can form a conspiracy. The only man who uses the raw cotton is the spinner. It costs lots of money to buy the spot cotton and hold it, but it does not cost but $20 a bale to carry a future contract, and the result is that when the cotton is to be sold there is no market. There is nobody in the market. The spinner has hedged and the farmer has been ruined.

I ran a gin, and before the legislation that passed this Congress that made it possible to make a contract that was somewhat enforceable, there were buyers of cotton on your gin platform every week to buy your spot cotton. I have seen buyers representing English and German spinners. Since it has been possible to make the contracts and let some one who never saw a bale of cotton fix the price, I have not seen a single cotton buyer in the town representing anybody but local merchants, and while I realize that because other people make profits is no sign I have been robbed, yet I wish to insert two clippings, both of them dated January 1 of this year. One is under a Lewiston, Me., headline, "A stock dividend of 100 per cent was authorized by the stockholders of the Androscoggin Cotton Mills at a meeting held here to-day. The action increased the capitalization $2,000,000." What cash dividends were paid I do not know. I have one from Spartanburg, S. C., of the same date which says: "Twenty-one cotton mills in Spartanburg County having a total capital stock of $8,908,900 on January 1 last have paid stock dividends amounting to $6,058,000, and cash dividends amounting to $2,099,949.50 during the year."

A concern which can make that sort of dividends does not need a great deal of insurance. It is doing reasonably well.

I have observed, and this is no criticism of this committee and is just as much a criticism of myself as anybody else, that if you try to legislate against any interest, be it a good interest or a bad one it can always make itself heard. It speaks with but one voice and whenever there is any proposed legislation that strikes at an existing condition, it always is able to be heard. The great mass of the people are not heard at all, because the great mass of the people do not have any information about the legislation pending nor any suggestions that they can offer, and that brings me back to what I started out by saying, if we are to wait here until the farmers can not only convince all of us, the most skeptical included that the legislation would not hurt anybody and would help somebody, and then suggest the exact language that the legislation should contain, we are not going to legislate at all.

Mr. McKinley. Senator, is it not fair, if we ask a witness here to ask him for suggestions or for ideas?

Mr. Caraway. Well, I suppose the gentleman is a lawyer?

Mr. McKinley. No; he is not.

Mr. Caraway. I thought every man on the Committee on Agriculture was a lawyer.

Mr. McKinley. No; I am a farmer.

Mr. Caraway. I did not know that. I have practiced law and if a man came to me and told me what the facts were, I never did want

him to tell me how to try his lawsuit. If he felt that way about it and had not confidence in me, I wanted him to get another attorney, and I personally confess to the feeling that if a man comes here and tells me of an evil that exists, I think he has gone as far as he should. I want to be trusted with enough originality to suggest the language that will cure the evil.

Mr. McKINLEY. But do we not all know about this evil now?

Mr. CARAWAY. Oh, we know it.

Mr. McKINLEY. Then if he is not to suggest any plan to stop it, what is the use of his coming here and telling us anything.

Mr. CARAWAY. I so thoroughly agree with the gentleman that I do not understand that there is any use in compelling the farmers to come here and tell us that a system which has robbed them year in and year out is wrong.

Mr. TINCHER. I introduced a bill——

Mr. CARAWAY. And I did.

Mr. TINCHER (continuing). Assuming I knew the remedy.

Mr. CARAWAY. Yes.

Mr. TINCHER. But how far would I get with the other members of this committee in getting my bill reported out? I am afraid some of the gentlemen from Illinois, New Jersey, and around there, would ask that they have hearings on it.

Mr. CARAWAY. I know that.

Mr. TINCHER. And among other questions they would ask the witnesses would be the names of their associates in business and probably the names of their wives.

Mr. CARAWAY. Oh, yes; and how many children they expect to have in the future so that the legislation should not hurt them, and one is just as relevant as the other.

Mr. McKINLEY. Senator, let me ask you a question, and this is for information. Is there not a cotton-futures act? What is the cotton-futures act?

Mr. CARAWAY. Yes; I would like to read you what a man who ran against that cotton-futures act said himself about it.

Mr. McKINLEY. What is the cotton-futures act?

Mr. CARAWAY. The cotton-futures act is one that says that only certain grades shall be tenderable—10 grades—and that actual delivery shall be in contemplation; but whether, in contemplation of the buyer or the seller or somebody else—the law does not say.

Mr. McKINLEY. Senator, did they attempt in the cotton futures act to restrict speculation?

Mr. CARAWAY. I think, sir, that the purpose of the act without question was to make the gambling less hurtful, just as, if you will pardon me, there used to be a mayor of Memphis, Tenn., whose name was Haddon. The negroes all shoot craps, and they found out how they could hold the dice under their finger, you know, the loaded dice, and skin everybody that shot with them, and so Haddon, who was a reformer and anxious that everybody should have a square deal, invented a tin horn and put two wires across it, and then he said, "Every negro who shoots crap in Memphis, unless he shoots out of this tin horn, I will have arrested." Haddon has been dead a long time, and yet every negro that lives knows about Haddon's horn. He does not know who Haddon was and he has not any

respect for his principles on gambling, but he knows about Had-don's horn.

The cotton futures act undertook to say, "While we know you ar gamblers and that you are skinning somebody, we want you to do i according to the rules we herein prescribe," and the cotton specu lators did just what the negroes did. They realized that there wa a Haddon's horn, but they had no respect for it and never observe its provisions, and you can not regulate an evil——

Mr. WILSON. Are you insinuating anything about Mr. Tinche when you refer to this Haddon horn?

Mr. CARAWAY. Oh, no.

Mr. WILSON. About Haddon's horn in his bill?

Mr. CARAWAY. Oh, no; it happens to be that the Haddon horn i the one that Congress has already enacted, and the one Mr. Tinche has seeks to abolish the Haddon horn and stop the gambling; bu I want to show you what Mr. Comer, who was a Senator, and, b the way, a big spinner, had to say about this. Mr. Comer wa talking about this very law and in answer to a question that wa asked, if they did not use exchanges as an insurance, said:

To be sure. That is what it is for. That is its function. And let me te you, Senator, since you have brought up that question, this last year we a thought that the Smith-Lever bill was going to do. We all thought the amend ment had accomplished its purpose and the contract market went along smoothl until last fall. Last summer and early fall the exchange prices were runnin along with the spot cotton prices and there were thousands of dealers wh sold middling and above, based on the exchange price. They sold cotton an then bought futures; but in less than 60 days there was a revolution in th exchanges. Spot middling and above advanced from 200 to 300 points.

That means, of course, from $10 to $15 a bale.

It went up just like this, and those unfortunate dealers trusting your la for protection had sold spot cotton middling and above, basis contract mi dling, depending on the proper functioning of the exchanges because of th last amendment to the Smith-Lever bill, lost tens of thousands of dollars a because the exchanges failed to function as Mr. Thompson says they should.

He runs one of them in New Orleans.

It was wrong. It was wrong. They had insured in the exchanges. The had a right to expect the exchanges to function in the way the law intende they should function, and the right to believe they were protected. Not merel in my section of the country, but all through the country, those people wh trusted in the exchange market, as it existed then, and sold the higher grad of cotton, middling and above, suffered because they did not anticipate th the exchanges would permit this great difference between the middling bas and the middling spots—a difference that was fictitiously accomplished.

I will not read further, but over and over again it is stated that i is by manipulation of the market. I know, and you know, too, tha if these so-called sales in futures did not affect the price of the prod uct at all there would be no sense in making them. If men merel wanted to gamble and there was no way to control the market an therefore no way to get the better of the unsuspecting man wit whom they deal, they might just as well toss heads and tails or d any other kind of betting. When we know that they sell over an over again a product that they do not possess, dozens of times mor than the whole product is, I believe that they are dealing with som thing that they know how to manipulate. I do not always require t be shown how a man does it. If he skins me, I know that he ha

skinned me and I am not very much interested in the scientific process by which he does it. I want to do something that will prevent his doing it again. That is all this legislation is aimed at. It does not strike at the individual's right to sell a product that he expects to have or receive; it simply says that you can not by manipulating the market destroy both the man who produces and the man who consumes. I have been told that $50,000,000 of margins were paid on the grain market in Chicago last year. Somebody paid it; the gamblers did not pay it.

Mr. McKINLEY. In what way does this bill differ from the cotton futures act?

Mr. CARAWAY. They differ in every respect. The cotton futures bill simply permitted you to buy or sell such cotton as you wanted, without any conditions for delivering the actual product, but simply fixes a method by which you can settle with the party with whom you either buy or sell on a commercial difference. It simply undertook to regulate the manner in which you should conduct the sale with your neighbor.

Mr. McKINLEY. It did not adopt grades?

Mr. CARAWAY. It adopts grades. It did not undertake to make a set of grades and to settle certain commercial differences for which there was always a rule. None of these bills before this committee undertakes to say that you shall not sell for future delivery even that thing you do not have if you have expectation to have the actual product for delivery.

Mr. LEE. I am not familiar with it, but I thought that if a cotton mill bought a thousand bales of cotton that they could demand delivery?

Mr. CARAWAY. They can. If the man has not the cotton to deliver, then they must take the commercial difference as reflected by five markets on that day. You can not demand delivery of personal property. If you owe a man so many bales of cotton, you can only respond in damages for failure to carry out the contract. We all know that you can not force a man to specific performance as regards personal property.

Mr. HUTCHINSON. Unless he has stolen it?

Mr. CARAWAY. If the legal title is in the other fellow.

Mr. HUTCHINSON. Are you in favor of the cotton futures act?

Mr. CARAWAY. No, sir.

Mr. HUTCHINSON. Are you in favor of a change in the law?

Mr. CARAWAY. You want a law to restrain. The law is the only thing. The law only undertakes to restrain, not to grant an advantage. I realize, just as much as any member of this committee, the absolute hopelessness of passing any legislation which helps one class without hindering another; it can not be done. This committee of seventeen, after it gets all the information in the world, can not do that. We can only look at the general results. We know that somebody is getting an unholy advantage over somebody else, and inasmuch as we know where the injury is we ought not to need any other information.

This legislation has not anything to do with the marketing system. It does not have to wait on that. I am thoroughly agreed with the members of this committee that the marketing system is very necessary. It is the most desired piece of legislation that Congress can

ever consider, if it were possible to devise some means by which th consumer and the producer could exchange their needs so that wit even a moderate profit for the middleman the consumer could get th product at a price at which the producer could afford to sell and th producer what the consumer could afford to pay. Then, both o them would be happy. In my own section if we got for cotton very small part of what the consumer pays for the finished produc we would be enormously rich instead of being absolutely bankrupt

Mr. TINCHER. I think that same thing applies to the live stoc of the country.

Mr. CARAWAY. Of course, it does. I was speaking of cotton, par ticularly. I do not know of any agricultural product that is grow that requires more human labor, and yet by going into the section where cotton is grown and looking at the manner in which the peopl live, you will realize that there is no class of agriculturists wh receive as little; and yet, as shown right here, the spinners, as I re member last year, made more than 300 per cent and are making mor than 100 per cent this year. They can do it because they control th flow of the raw material by future dealings. We all know if thre or four people want an article and there is only one article to be sol that it is impossible for us to get together and divide up the article and we will all go to the sale and bid on it and the one will take it wh is able and willing to pay the most for it; but, if there is a way fo us to agree to divide it, we will all stay away from the sale and th one who goes for all of us will get that article from the man wh owns it for nothing; the owner of the article will reap no benefit fro having produced it; by getting together we will pay practically noth ing for it. Under the present system the cotton spinners absolutel stay out of the market as long as cotton is in the hands of the farme to sell, and the enormous dividends which they are able to pay thei stockholders show how profitable the arrangement is. Another re sult is the enormous price which the man who produces the cotto has to pay for the finished product. That is something which every body knows. If there is no means by which we can acquire protec tion, we will have to buy the product from the man who has it, bu if we can insure ourselves against loss we can stay out of the marke until he is destroyed. We can pay our agent richly for helping us— just as the exchanges are enormously profitable. Two months ag I saw in a newspaper that a seat on the New York Cotton Exchang had sold for $92,000, which is simply the right to gamble.

Mr. HUTCHINSON. You spoke about the spinners making 30 per cent?

Mr. CARAWAY. Yes, sir.

Mr. HUTCHINSON. Most of them are shut down, what would yo think was the reason for that?

Mr. CARAWAY. As funny as it may sound, the best way sometime to make money, when you have an absolute control of the supply, i to shut down. Nobody else can spin the cotton and nobody els can sell the cloth and if the country does not want to pay the pric they demand, they can remain shut down until we get down to th last shirt and then we will have to pay as much for one shirt as w usually pay for two.

Mr. HUTCHINSON. That is your idea of business?

Mr. CARAWAY. It is not my idea of the way that business should be conducted, but I know that it is the way that it is sometimes conducted.

The CHAIRMAN. Did I understand that the cotton futures act afforded some relief?

Mr. CARAWAY. It afforded some relief to the spinners, but not to the farmers.

The CHAIRMAN. It helped the spinners?

Mr. CARAWAY. Yes, sir.

The CHAIRMAN. Would not the contract grades help out matters, would not that cut out speculation?

Mr. CARAWAY. Yes, sir.

The CHAIRMAN. The contract grades, one above and one below?

Mr. CARAWAY. Yes. If you had a law and had any way to penalize him, unless he actually delivered the product, you would stop the exchanges, because no man could afford to sell a product that he did not own and could not own and which was not in existence, if he could be penalized, criminally, for not fulfilling his contract.

The CHAIRMAN. And the producer of the cotton could operate under that law?

Mr. CARAWAY. The producer?

The CHAIRMAN. Yes, sir; or the one who had the cotton.

Mr. CARAWAY. To some extent, yes sir. No bill which could be introduced would deny that kind of a trade. There is no legislation pending before this Congress that would deny him that right.

The CHAIRMAN. An amendment to the cotton futures act limiting it to the grade or probably stretching it to a grade above or below and requiring delivery?

Mr. CARAWAY. Yes, sir; penalized with a proper penalty.

The CHAIRMAN. If you do that you close the exchanges?

Mr. CARAWAY. Yes, sir; you close them so far as what we usually call "puts" and "calls," because no man could afford to sell a thing he has not the power of acquiring if he is going to be ruined if he does not fulfill his contract.

The CHAIRMAN. And a farmer with 10,000 bushels of corn ready for delivery could enter into an agreement to deliver it by the first of May?

Mr. CARAWAY. Yes, sir; no law would undertake to prevent a man doing that. Congress can not do it to start with, it has no power, and would not undertake to do it. If you write that sort of a law, I do not care what you call it, you will do just what the cotton grower wants to have done. The thing he objects to is the unrestricted selling of his crop by men who never planted it, never expect to own it or to deliver it.

Mr. HULINGS. It is claimed that in these exchanges they have all the information that can be had concerning it as to time and as to the value of the thing and that the price is fixed there at such a market?

Mr. CARAWAY. Yes, sir.

Mr. HULINGS. Do you think that is true?

Mr. CARAWAY. I know it is. Suppose you and I know absolutely nothing about some specific subject and get together and say, "We will say this thing is true," it would not make it true.

Mr. HULINGS. No, sir. If it were true, wherein is the power of these exchanges to make unfair profits?

Mr. CARAWAY. Psychology influences the minds of men to a certain extent. If I have an article to sell and if everybody I see pretends that he has ten times as many of the article to sell as the market will absorb that he is trying to sell, I naturally become afraid and sell my article cheaper.

Mr. HULINGS. If the other man has just as much information as you have, he will say, "I will take it." Then the price of the article fluctuates one way until the consensus of opinion of the trade meets at a certain price.

Mr. CARAWAY. I think that the gamblers can agree, and by bidding backward and forward they can reach something near a stable agreement mong themselves.

Now, Herbert Hoover, whom you gentlemen should be eminently proud of, since he is to be the whole Cabinet. There is only one place for which he has not been suggested, and that is the Attorney General, and I think he would take that.

Mr. WILSON. You tried to nominate him at one time?

Mr. CARAWAY. Yes; but I suspect we could not have sold our nomination to any pawnbroker for 15 cents, because the people were temporarily out of their minds, and the article was not in demand.

Mr. WILSON. The people were not as much out of their minds as some of the Democrats in high places.

Mr. TINCHER. The people just had a lucid interval.

Mr. CARAWAY. I think myself that two years from now they will find that they were temporarily wandering.

Mr. WILSON. Twenty years or more they will not show the kind of mind that you think they will show.

Mr. CARAWAY. When Mr. Herbert Hoover was buying beans for the Belgians he said that he came into the market and he bought millions of bushels of beans and then he would sell beans, buy beans and sell beans until finally he beat down the price until he could buy them cheap for the Belgians, and he testified that "I was working in the interest of a worthy cause." He saved thousands of dollars and bought a million more bushels of beans by reason of the fact that he was buying and selling until he beat down the price.

The CHAIRMAN. Manipulated the wheat market?

Mr. CARAWAY. Somebody did.

The CHAIRMAN. Down to the minimum price.

Mr. CARAWAY. I only want to say that I am thoroughly in accord with the suggestion of the chairman, that Congress should not fix prices, and, coming back to the question which was asked me, let me say that the sins of this administration gave you folks a new lease of power that nothing you ever did would justify.

Mr. MCKINLEY. Is not the only way in which we are going to get away from speculation to control the price and the profits from the producer to the consumer?

Mr. CARAWAY. No. If that were true, I would rather bear the evils which we have than to fly to others that I know not of. I am unalterably opposed to the Government interfering with the natural flow of business, the unrestricted right of men to do business as long as they do it honestly.

Mr. McKinley. How can you make them honest? You can not make people honest.

Mr. Caraway. I know that. I have seen a good many people who have acted honest, however, because they did not want to go to the penitentiary. That is all the law can ever do. It can not change men's moral traits; even religion does not always accomplish that.

The American farmer asks less of Congress than anybody else. He never asks a privilege. He only asks that we give him a square deal and a chance to function under a law that will prevent somebody else from robbing him. He does not want to rob anybody. Most of my people are farmers, and I want to say that, because it is popular.

It is true that the farmer has no power of organizing and presenting a solid front, and has therefore not much power to get an unholy advantage. All that he has ever asked is that he should have protection against these people who can organize and manipulate the market and destroy him.

There are some things that I absolutely know. I do know that gambling in the future products of the farm has practically destroyed the farm.

Mr. McKinley. Is it not a fact that you have got to do one of two things. You either have got to provide a vehicle like the Staley Starch Co.——

Mr. Caraway (interposing). I shall never be able to forget it.

Mr. McKinley. You have to provide some way, some ownership of the product between the time that the producer wants to sell and the consumer wants to buy.

Mr. Caraway. Who owns it now, between the time that the farmer in Illinois wants to sell it and the Staley Starch Co., as you have said, wants to buy it?

Mr. McKinley. The speculators.

Mr. Caraway. Oh, no; there is no place to sell or buy actual grain. Ninety per cent of them would not know a bushel of corn—they never saw a bushel of corn.

Mr. McKinley. I know this, I have heard the question asked over and again, "Who is going to carry this corn from the time the farmer wants his money in January until the Staley Starch Co. wants to buy it?"

Mr. Caraway. I think Mr. Eckhardt has made a correct statement, that a large amount of it is carried by the farmer and a great amount is carried by people who are termed in this record as speculators—for instance, the Armour Grain Co.

Mr. McKinley. The question is if we pass a law it is for us to define the demarcation between a man who we think is going to buy grain and who we do not think is going to buy it.

Mr. Caraway. That is not difficult at all. The line of demarcation is very wide. I am going to say this, with all kindness, that nobody is going to be very much concerned about that line of demarcation, because we all know where it lies. If the man who sells has within his power at the time or in the future to deliver and expects to deliver the thing he sells, and if the man who buys it has the power to buy it and expects to receive it, that is a legitimate transaction. A man who neither owns nor expects to own, as well as the man who does not receive and never expects to receive, that is purely gambling. That line of demarcation is not in any borderland of uncertainty at all.

Mr. McKinley. Take, for instance, Mr. Patton, we recognize him as a speculator?

Mr. Caraway. No. I happened to have been a member of an investigating committee last year in Chicago and he was before the committee and I asked him what his occupation was and he said he was a farmer. That was his sworn testimony.

Mr. McKinley. He is recognized as a speculator?

Mr. Caraway. He says that he has reformed.

Mr. McKinley. When he was buying grain, was he not recognized as a speculator?

Mr. Caraway. Yes, sir.

Mr. McKinley. Did he not buy grain?

Mr. Caraway. Yes, sir.

Mr. McKinley. Could you not make him take it?

Mr. Caraway. No, sir. You can not make a man take personal property or deliver personal property which has not been requested or designated. All you can do is to make him respond in damages for breach of contract. There was never a court in the land from the justice court down—because I recognize that that is the highest court—that ever thought it could do that.

Mr. McKinley. You could not convict Patton of being a speculator if you had the law?

Mr. Caraway. I realize that some people you can not convict. You can not convict a man if he expects to carry out his contract and is able and willing to do it.

Mr. McKinley. How can you decide whether he expects to do it?

Mr. Caraway. If a man has corn and sells it, and he has a right to sell what he is going to deliver, and if he makes a good-faith contract with some one who then turns around and sells the contract to somebody else who he believes is going to take it, why, his intention was good and he commits no offense. It is the intent that makes the crime. A man can take a horse that he never owned and not be guilty of larceny, because he thought it was his, but if he took his own horse and believed that it was not his horse, he is a thief. The intent under the law can readily fix that, it is so susceptible of proof. There is no difficulty there at all. The only difficulty is will Congress be pursuaded that it wants to protect the farmer against other people who exploit the farmer. There is absolutely no difficulty. No law ever contemplated denying a man who has a product either in his possession or has a good faith contract where he has a right to believe it will come into his possession, the right of selling that again. It has no right to do it. It would not do it, and nobody is so crazy as to expect or to want Congress to do it. The only thing Congress could do or ought to do is to prevent that man from beating the prices down or raising them to the consumer by artificial means when he is not dealing in the product but just merely betting upon the price.

Mr. Hutchinson asked a question yesterday that was perfectly legitimate. He asked if he bought 10,000 bushels of corn in January and intended to use it in his mill but was offered 50 per cent advance on it and sold it, would he be gambling. He would not. That would be a perfectly legitimate transaction and nobody would seek to penalize him.

Mr. Tincher. And no bill before the committee does seek to do that.

Mr. CARAWAY. Nobody outside of St. Elizabeths would think of offering a bill of that kind.

The CHAIRMAN. Senator, it seems to be generally conceded that there is a good deal of speculation and gambling.

Mr. CARAWAY. Everbody knows that, of course.

The CHAIRMAN. Then we will accept that statement as conceded. If you were to do away with speculation through the exchanges, is it not possible that these same speculators and gamblers would resort to some other way of doing that.

Mr. CARAWAY. Yes.

The CHAIRMAN. By buying up the supply and storing it.

Mr. CARAWAY. Yes; that same thing is possible with any law we put upon the statute books. We make it against the law to bet on a horse race and we did it right here in the District of Columbia and yet every day they make books right here in the District. You can not keep people from being criminals but when they can not publish their contracts and thereby influence the market, they can not hurt anybody but the man they gamble with. Whenever you deny them the right to band themselves together to deal in a thing so as to influence the market, that is the way you can prevent it. If they want to get out on the side and gamble, then they do not hurt anybody but themselves. and they will not do that because there is not anybody but themselves to skin and they are not profitable objects to skin.

Mr. VOIGT. There is nothing under existing conditions that would prevent any set of speculators from buying up the existing supply.

Mr. CARAWAY. Absolutely not. There is not anyway to prevent that.

The CHAIRMAN. One is as bad as the other.

Mr. CARAWAY. Oh, no; one is a theoretical evil and the other is an actual one.

The CHAIRMAN. It would also be necessary to have a law against hoarding, would it not?

Mr. CARAWAY. This committee thought so and put a law on the statute books. Frankly, Mr. Chairman, I am a little doubtful that you can regulate business successfully, and I mean by that legitimate business, by acts of Congress. I never have believed that some one who sits here in the basement of some Government building with his hair parted in the middle can run this country better than all the people can run their own private business. I have no patience with that. I never went to a department in my life I did not come away thoroughly angry and half ashamed of my government because they can not do it, and this buying up of the actual product never has and never will be a fact. If they do, they will pay so much when it begins to get scarce that they will be broke before the corner is ever finally consummated. I am not afraid of that.

The CHAIRMAN. Your contention then is that this thing should be abolished entirely and wiped out.

Mr. CARAWAY. I am so certain of that, that I have not any doubt at all, and every penny that I have or that any member of my family has, not only actually but all the credit we have, is invested in growing cotton, and I would not want to ruin myself and my kinfolks.

I have a brother who thinks he owns a Baptist church, and you know there is a great deal of comfort in the Baptist religion. It

teaches that if you have it you can not lose it, and if you lose it you never had it, and therefore there is nothing to worry about; but a few years ago, he and the other leading members of the church, decided there was something in the cotton market and they took up a collection and went down and got cleaned out in a day, and they are very much against gambling in futures. I think they have written that in the tenets of their church now.

If I may be permitted to say just a word about myself, personally. I went to the fields so early that I do not hardly remember, and I have been a day laborer and a share cropper, and I own some land now—rather more than I think it is good for the country for one man to own—I grow cotton; I am a ginner of cotton, and all my family is bound up in the same industry, and I know from watching and trying to protect myself against conditions that other men make, that we have never been able to make anything off of producing cotton, and I know where the evil lies.

Mr. HUTCHINSON. Do you still keep at it, Senator?

Mr. CARAWAY. Yes, sir.

Mr. HUTCHINSON. And you are losing money all the time?

Mr. CARAWAY. Well, I did not say that.

Mr. HUTCHINSON. I would like to ask you one other question: suppose we do abolish the chamber of commerce or the board of trade or the cotton exchange; how would you handle your grades? Who would you leave that to?

Mr. CARAWAY. If I may answer the question by asking a question, do you imagine that the man on the cotton exchange in New York has anything to do with the grades? The grades are the things that the cotton itself presents, its length of staple, its strength, and its color. All those things determine its grade, and the exchanges merely gamble in grades. They do not fix them. This committee gave the Government, through the Secretary of Agriculture, the power to establish grades. I rather think it was a good thing, but it never amounted to anything, because it did not do the farmer a bit of good to know what grade his cotton is if he has no power to sell it.

Mr. HUTCHINSON. But suppose a man in the East buys a certain grade of cotton, and when it gets up there it is not that grade, but of a poorer quality?

Mr. CARAWAY. Then the man in the East does not take it for the grade he buys. We all know that, Mr. Hutchinson. If I sell a man a horse and try to deliver him a mule, he is under no obligation to take it, and if I sell him a certain grade of cotton, and when I try to deliver him that cotton it is not that grade, he is under no obligation to take it, and the exchanges have nothing to do with that. The cotton does not go through the New York exchanges. Millions and millions of bales are sold there, and less than two thousand bales were actually delivered through it, as I recall now last year. On Monday of this week cotton went up $5.20 a bale and the next day it fell $4 a bale.

Mr. HUTCHINSON. Then I think your exchange ought to be abolished. The grain exchanges are different. For instance, if I buy 10,000 bushels of No. 1 October wheat and it comes to Trenton where my mill is located, and it is not that grade, I have a redress

Mr. CARAWAY. Of course you have, and you ought to have, and Congress could not take that right away from you, and does not want to.

Mr. HUTCHINSON. Would you attend to that in a case of that sort? With us, we take it up with our exchanges.

Mr. CARAWAY. Suppose you buy it from a legitimate dealer in grain—a warehouse dealer—you do not have to take it. It is not a delivery to you until they deliver you what you bought.

Mr. HUTCHINSON. He might say it is No. 1 October wheat, and I might say it is not.

Mr. CARAWAY. Who does fix that—the grain exchanges?

Mr. HUTCHINSON. Yes.

Mr. CARAWAY. The men who buy and sell grain there would not know wheat from oats, would they?

Mr. TINCHER. I may be wrong, because I know you are an authority on cotton, but I think perhaps you are somewht confused, because I thought we had a Federal grain-inspection law.

Mr. CARAWAY. We have.

Mr. TINCHER. And I thought that settled the matter which Mr. Hutchinson seems to think the grain exchanges settle.

Mr. CARAWAY. I was just going to say that the man on the exchange knows that he must——

Mr. TINCHER (interposing). I do not think the grain exchanges are responsible for the good condition that Mr. Hutchinson mentions, because I think our Federal grain-inspection law and our grain inspectors operating under that law are responsible for that.

Mr. CARAWAY. That is true.

Mr. HUTCHINSON. But we have redress through our exchanges.

The CHAIRMAN. And the grain is generally inspected by licensed inspectors.

Mr. CARAWAY. Yes, sir.

The CHAIRMAN. And in some instances they are appointed by the exchanges, or they are State officials, and they have the right of appeal to the Federal Government.

Mr. CARAWAY. I do not think, myself, that forms any difficulty. I do not presume the gentleman would buy 10,000 bushels of wheat from somebody who was wholly irresponsible, and if he were responsible, and even if he succeeded in unloading the wheat on you and got your money, you would have your redress anyway, and that is all you could have. The exchange could not make the man do anything. It could put him off the board, but if he were insolvent that would not do you any particular good.

Mr. VOIGT. That man would not be in any worse position than a man who bought a carload of lumber or a carload of coal.

Mr. CARAWAY. Not a bit. The only advantage a coal dealer has is when my friend Newton D. Baker pays $11 a ton for it when it is worth $3.50.

The CHAIRMAN. We are very grateful to you, Senator.

Mr. CARAWAY. I thank the gentlemen of the committee.

The CHAIRMAN. The committee will now recess until Friday morning.

(The committee thereupon took a recess until 10 o'clock a. m. Friday, January 7, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Friday, January 7, 1921.

The committee met at 10 o'clock a. m. pursuant to adjournment on yesterday, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. I have here a number of telegrams requesting hearings before this committee on the pending legislation. For the benefit of the members present I will read one:

Representing the clearing house association and banks as well as the First National Bank of Minneapolis, I wish to ask for an opportunity to be given a hearing before your committee on the question of future trading which you now have under consideration. Will you kindly suggest a day which will be satisfactory.

There are about 20 of such requests. What is the pleasure of the committee?

Mr. TINCHER. That is from a bank?

The CHAIRMAN. It is from a gentleman who represents a clearing house association and a bank.

Mr. HULINGS. Mr. Chairman, I move that this bill be reported out, and that the clerk of the committee be requested to answer that communication that we will hear the party the next session. We have heard this subject discussed for months and years, and have now heard it here for about a week, and everybody on this committee, doubtless, has made up his mind the way we are going to report on this bill, or at least, whether we are going to report the bill or not. If we are going to turn it down let us do so and go to work on something else. We have heard all the talk we want to hear, I think.

Mr. MCKINLEY. Question.

The CHAIRMAN. Are you ready for the question?

Mr. VOIGT. Which bill do you suggest being reported out, Mr. Hulings?

The CHAIRMAN. Gen. Hulings, please state the bill which you desire to be reported out, on your motion.

Mr. HULINGS. The Tincher bill.

The CHAIRMAN. The Chair will put the question if the committee is ready?

Mr. MCLAUGHLIN of Nebraska. I would like to ask if the mover of the motion means the Dickinson bill, the Tincher bill, the Hoch bill, or what bill.

Mr. HULINGS. The Tincher bill, the one that has been discussed most.

The CHAIRMAN. Are you ready for the question?

Mr. HULINGS. I call for the question.

The CHAIRMAN. All those in favor will say aye.

Mr. TINCHER. Aye.

Mr. MCKINLEY. Mr. Chairman, there is only about half a quorum present.

The CHAIRMAN. The gentleman makes the point of no quorum?

Mr. HULINGS. I will withdraw my motion until a quorum arrives.

The CHAIRMAN. The motion is withdrawn by unanimous consent. What action will be taken on these requests for hearing?

Mr. TINCHER. I do not want to deny to anyone the right to a full hearing, but I understand, and I have it pretty reliably, that the Minneapolis Board of Trade, or not the Board of Trade properly speaking, but some Minneapolis grain dealers who trade in futures, are taking steps to stall us, and they have had some bankers and others to wire in for hearings, and propose to have others to make request for hearings in order to stall us off through this session. In fact, I have been advised they intend to filibuster against this resolution, so to speak.

I am in favor of wiring every one of them that hearings are on, and that they are absolutely open, and that we would like to have them here; but I do want this bill reported out if we can get a quorum some day to do it.

Mr. VOIGT. Would it be a good idea to set a tentative date now for a closing of the hearings? Otherwise this sort of thing will peter along for a month or more.

Mr. TINCHER. They have had a meeting in Minneapolis, and have agreed that they will have bankers and others to wire the committee for hearings, and they purpose to stall us off.

Mr. RIDDICK. Wouldn't it be a good idea to bring the senders of those telegrams together, and suggest that we will give them two hours, and let them select those who wish to speak for them; and then give other representative people two hours, and bring the hearings to a prompt close, and in the meantime give everybody a chance who wishes to be heard?

Mr. TINCHER. Yes.

Mr. VOIGT. Suppose you give them one week.

Mr. RIDDICK. If we tell the Minneapolis people they may have two hours then they will select their best men who will give us all the information they really have to present.

Mr. HULINGS. Is there any use of holding these seances longer than next week?

Mr. RIDDICK. I hope not.

The CHAIRMAN. I have been looking over this list and find that the parties applying for hearings are greatly scattered. They are:

F. A. Chamberlain, chairman board of directors, First National Bank, Clearing House Association of Bankers, Minneapolis, Minn.

Harry H. Tangenberg, Merchants' Exchange of St. Louis.

C. G. Anderson, manager Farmers Union Grain Co., representing 500 farmers, Aberdeen, S. Dak.

Home Farmers' Elevator Co., Sam Ellenbau, Frederick, S. Dak.

G. F. Ewe, Terminal Elevator Grain Merchants' Association, Minneapolis.

George A. Kolb, manager Belgrade Flour Mill Co., Belgrade, Minn.

Farmers Elevator Co., Conde, S. Dak.

C. A. Nelson, secretary Farmers Elevator Co., Brooten, Minn.

Frank B. Rice, Star & Crescent Milling Co., Chicago, Ill.

Wm. S. Miles, president Peoria Board of Trade, Peoria, Ill.

A. A. Haagensono, Red River Seed Produce Co., Barnesville Minn.

C. D. Curry, Columbia Equity Exchange Elevator Co., Columbia S. Dak.

A. C. Loring, president Pillsbury Flour Mills Co., Minneapolis.

Toledo Produce Exchange, Toledo, Ohio.

Harry J. Berry, Indianapolis Board of Trade, Indianapolis, Ind

Quaker Oats Co., Chicago, Ill.

M. J. Cull, Leeds, N. Dak.

F. P. Manchester, Omaha Grain Exchange, Omaha, Nebr.

Farmers Elevator Co., Lamberton, Minn.

J. F. Meyer, Groton Farmers' Elevator, Groton, S. Dak.

Mr. TINCHER. I do not want to deprive them of the right to be heard. But those are gentlemen who were invited to a banquet in Minneapolis, and they attended that banquet, and they have agreed to stall us off and keep this thing going on during the winter if they can. I want them to be heard, but do not want that banquet to stall us off and prevent legislation. Let them come on now.

The CHAIRMAN. I think it was tentatively agreed that we would give a week or ten days to the hearings. Will any member of the committee suggest how long we shall go on?

Mr. HULINGS. I move that the hearings be ended the last of next week, whatever date that is.

Mr. MCKINLEY. That will be the 15th.

Mr. HULINGS. All right, that is my motion.

The CHAIRMAN. You make a motion that the hearings be closed on January 15?

Mr. HULINGS. Yes, sir; and that the sessions of the committee be held so as to meet as far as may be the convenience of those who want to be heard.

The CHAIRMAN. All in favor of that motion will say aye. [A chorous of ayes.] It is unanimously agreed to. Those who have applied for hearings will be so notified.

Is anyone present who wishes to be heard this morning?

Mr. CALVIN. Mr. Chairman, if no one else wants to be heard this morning, I might say what I wanted to say to the committee. I thought there was a regular program, and therefore I did not come here this morning with the expectation of being heard today, but I will go ahead of it is the desire of the committee that I should do so.

The CHAIRMAN. The committee will be pleased to hear you at this time.

STATEMENT OF MR. E. A. CALVIN, HOUSTON, TEX.

The CHAIRMAN. You will please give your name, address, and the name of those you represent to the reporter so that the record may show it.

Mr. CALVIN. My name is E. A. Calvin; my residence is Houston, Texas; and I am here at this time myself as a cotton grower. I will add that a number of farmers met in Houston, Texas, a few days ago and asked me to come and present the matter to the committee as best I could.

In this connection I will say that for two years I was president of the Farmers' State Union and was also for a short while president of the National Farmers' Union. I have worked with farmers' organizations since 1905 almost continuously. For two years and a half I represented the market board, composed of the commissioners of agriculture and the presidents of the various farmers' union organizations of the cotton States and was here in Washington during the war.

Mr. Chairman and gentlemen of the committee, I will state at the outset that it will not inconvenience me for the members of the committee to ask me questions whenever they are disposed to do so. I would rather talk in a conversational way than in any other way, and think that better results can be obtained by the members of the committee asking me questions and my attempting to answer them.

I desire to say, Mr. Chairman, that I have given, in my own work with farmers' organizations, quite a good deal of study to this question. In fact, I have been studying the question since 1905, at which time we had up in Texas the matter of putting out of business what we called bucket shops. Representing the Farmers' Union at that time I made the fight before the Texas Legislature to abolish bucket shops from the State of Texas, and we succeeded in abolishing them.

What I shall say to this committee in regard to exchanges——

The CHAIRMAN (interposing). Have you abolished branch houses, too?

Mr. CALVIN. No, sir.

The CHAIRMAN. What is the difference between a bucket shop and a branch house?

Mr. CALVIN. Well, my understanding is that the difference is about this, to make a simple illustration: I could, by putting a wire into this building and tapping some one else's wire, convert this room into a bucket shop in about 10 minutes; that is, by making the chairman of this committee or some one else the owner, operator, and controller of the bucket shop. The remainder of us in the room would purchase and sell cotton or grain in small or large lots based upon the quotations shown on the blackboard. If we paid in our margins the owner of the bucket shop would receive them and put them into his pocket, he depending upon there being as many sales as purchases to prevent him from going broke in case of a radical change in the market. The result of those purchases and sales would not be reflected in any market in the world; they would simply be bucketed in that shop, or stopped there. We would be merely betting on the quotations placed on the blackboard.

The CHAIRMAN. Based on quotations from where?

Mr. CALVIN. Based on the quotations quoted from the regular exchanges.

The CHAIRMAN. In that respect a bucket shop would be identical with a branch house?

Mr. CALVIN. Oh, no. In a branch house every sale made, every sale of cotton bought or sold, every bushel of wheat bought or sold

goes into a central market or to one of the exchanges, and there becomes a sale or purchase.

Mr. HULINGS. As it is fluctuated.

Mr. CALVIN. And if there is no fluctuation in the market, and the quotations are made correctly, the sale would be exactly the same in a bucket shop as in a branch house, with this important exception, that in the case of the bucket shop you would get immediate returns, and in the case of the branch house the transaction would go through an exchange before returns could be made.

Mr. HULINGS. All sales or purchases made in branch houses go through an exchange and are registered?

Mr. CALVIN. Yes, sir; and sales or purchases in a bucket shop are not registered anywhere except on the wall of the bucket shop, and those in the room of the bucket shop merely bet on the market as quotations appear on the wall.

Mr. HULINGS. Who keeps the bucket?

Mr. CALVIN. The owner of the bucket shop.

Mr. RIDDICK. And transactions in a bucket shop do not affect the value of cotton or grain at all?

Mr. CALVIN. Not at all, because those transactions are not registered in the market at all.

Mr. RIDDICK. What was the reason for your action in abolishing bucket shops in Texas? I just want to get it into the record.

Mr. CALVIN. Because they were purely gambling institutions; that was all they amounted to in Texas. We had 1,520 bucket shops scattered throughout the State in small towns, and we made a fight on the bucket shops because they were purely gambling places.

Mr. TINCHER. Well, I might say that it is the big bucket shop that I am after in my bill. The gambling now is all centered in one big bucket shop. It is purely the gambling end of the proposition that I want to put a stop to. I do not want to outlaw any legitimate trading, and do not think any other member of the Congress wants to do otherwise. As I understand you are not any more for the Chicago bucket shop than you were for the Texas bucket shops.

Mr. CALVIN. I am not for a bucket shop anywhere; that is correct. But I will say this, I heard some of the questions propounded and answers made on yesterday and the day before relative to why exchanges exist at all: In the days when men swapped peanuts for potatoes and coon skins for corn whisky exchanges were not necessary, but as the population of the world increased and as great cities were builded and transportation facilities built up and our commerce became world-wide in its ramifications, the time came when we had to ship immense cargoes of foodstuffs and raw material for the manufacture of wearing apparel and other things across the ocean, taking perhaps 60 and 90 or 120 days or more to transport the cargoes from seller to purchaser; I say then it became necessary to inaugurate some system whereby such commerce could be carried on without too great a hazard.

For instance, if it took three or four or five or six months to transport a cargo of wheat or of cotton to Europe, of course there was danger of fluctuation in price and the contract might be cancelled on arrival of the cargo. So the exchange came into existence, you might say as an evolution in business, the purpose being to enable

men to do business on as narrow a margin of profit as possible and at the same time try to do a safe business. That is my understanding of the evolution in the method of doing business and the establishment of the exchange, and it is upon that ground that I would attempt to defend it.

Mr. HULINGS. And no one farmer ever has enough to load a ship.

Mr. CALVIN. That is the idea. Believing that to be the function of the exchange, it is perfectly plain to me why it is to the farmer's interest to have the exchange properly regulated and conducted; because, if the middle man, through the existence of the exchange, can handle grain, cotton, or other farm commodities on a narrow margin of profit, it enables him to give the farmers more nearly what the middle man receives from the manufacturer than he could otherwise give them, based on the market at the time.

A good deal has been said before this committee as to the hedging features of exchanges. It seems to me that that is the principal purpose and function of an exchange; that is, to afford hedging facilities for the carrying on of business, the buying and selling of products. Some have said here that if the business could be limited to hedging there would be no objection to the operation of exchanges, probably. In other words, if all speculation could be cut out there would be no objection to the operation of exchanges. It was our contention, and we have given some thought to the question, that it is impossible to have proper hedging facilities without some speculation. We do not see how hedging could be carried on unless there was some speculation. For instance, to illustrate: One of you gentlemen may desire to sell a thousand bales of cotton, we will say, and some one else, at the other end of the line, engaged in manufacture, wants that cotton but that some one else is not ready yet to make his purchase. Then you, as a dealer, have got to sell your hedge. Your order is sent into the market, to the exchange.

Now, then, if it is sent in a little later or if it had been sent in a little earlier, I, as the manufacturer, might have purchased the hedge that you are desiring to sell because I might be wanting to hedge in the same amount you are wanting to hedge in. But I am not ready; I am not on the market at that time. The speculator, then, who stands by and is willing to take some risk believing that, based on conditions as he sees them, cotton is lower than it should be, is willing to take the risk and buy the order that you have sent in for sale, for a thousand bales of cotton. Later on I go in and I want to buy a thousand bales of cotton and he, the speculator, who had bought the thousand bales you have offered for sale, turns around and sells them to me. Each of us has been hedging, each of us has been protected, and each of us has so arranged our business, through that means, that we can do business on the narrowest possible margin of profit.

In 1914, gentlemen of the committee, the cotton exchanges were closed as a result of the war. I do not believe the grain exchanges were closed at that time, were thay?

Mr. TINCHER. No.

Mr. CALVIN. There was a period of six or eight months when the cotton exchanges were closed; and, of course, no hedging facilities were offered to anyone dealing in cotton. During that time I saw cotton sell, of the same grade and the same staple, for $20 more a bale in one little local market in the country than the same cotton

sold for less than 10 miles away. Why? Because no one knew what the market was, in the first place. Farmers in the country were at the mercy of the man, be he scrupulous or unscrupulous, who knew what he was doing. It became a question of barter between individuals, with the farmer unequal in the bartering contest. Why? Because he had no knowledge or information whatever as to what cotton was worth. There was no medium then in existence through which that knowledge might be gained or the market could be determined.

Mr. VOIGT. Well, if you will pardon me, that was at a time when the exchanges were closed entirely.

Mr. CALVIN. Yes, sir; the exchanges were closed entirely. That was the condition existing then. There was no method of reflecting the market to the farmers; there was no way by which they could obtain the market, except from the morning papers. There would be quotations in the morning papers, but those quotations were based upon what? Just someone's information, perhaps some individual's information as to what cotton was worth at that particular time.

Some one has said here before this committee, and I believe it was Mr. Reynolds the day before yesterday, and I think he was somewhat selfish in his belief or in his argument, that so far as the big exchanges were concerned he thought they ought to continue to operate, but that he was opposed ao the wire houses scattered throughout the country because, he said, men went in and gambled on the cotton market or the grain market.

Now, gentlemen of the committee, nearly everything that we tackle has some evil in it. It is bound to have. What I object to is the taking of these facilities away from the farmers of the country so that they might not know what the market is or what the conditions are.

Mr. PURNELL. Do you think it possible to maintain the good features and eliminate the bad in any legislation that this committee could report?

Mr. CALVIN. We have attempted to do that in the legislation on cotton exchanges. I came to Washington, gentlemen of the committee, at least half a dozen or more times during the time that such legislation was pending, covering a period of five or six years, and before we finally got what we considered a reasonable bill. It was a very difficult task, a very difficult matter, but I thought we had worked out something that was pretty satisfactory, and I still think so. I think that our legislation covering cotton exchanges is pretty good.

Mr. PURNELL. What about the cotton futures act?

Mr. CALVIN. That is what I am referring to. I do not agree with Mr. Caraway.

Mr. PURNELL. I was going to ask you if you agreed with Mr. Caraway's statement made before the committee on yesterday afternoon.

Mr. CALVIN. I heard what he said, and you understand that Mr. Caraway is opposed to all exchanges. That is his position. He does not believe they have any right to exist, and does not believe they perform any function in this economic life of ours, and therefore that they ought to go by the board. There are very few people who take that view of the question.

Mr. VOIGT. I did not understand that Mr. Caraway was opposed to an exchange where the actual commodity was dealt in.

Mr. CALVIN. Well, a question is raised there. He is opposed to all exchanges dealing in futures.

Mr. VOIGT. I do not think you ought to misstate what the gentleman said.

Mr. CALVIN. I did not intend to do it.

Mr. VOIGT. My understanding of Mr. Caraway's testimony was that he is opposed to gambling in farm products, but that he has no objection to the existence of exchanges where the actual commodity can be dealt in.

Mr. HULINGS. And the selling of futures.

Mr. CALVIN. He was opposed to the selling of futures, except——

Mr. VOIGT (interposing). He was not opposed to the future sale of a commodity providing the commodity was in existence or that the man who made the sale had control over the commodity.

Mr. HULINGS. That was his idea, exactly, as I understood it.

Mr. MCLAUGHLIN of Nebraska. I think that is correct.

Mr. HUTCHINSON. I think I asked him the question and that he said he was in favor of wiping out exchanges dealing in futures.

Mr. CALVIN. I am quite positive that you will find that in the stenographer's notes.

Mr. VOIGT. I do not believe that is the substance of Mr. Caraway's testimony given here, that he is in favor of wiping out the market place for farm commodities.

Mr. HULINGS. He distinctly said he was in favor of future sales where the property was in existence or where the man expected to have it.

Mr. VOIGT. That is what I understood him to say.

The CHAIRMAN. I believe he said that he was opposed to exchanges dealing in futures, but not opposed to any transaction between producer and consumer; and, of course, in those transactions the future exchanges are not necessary.

Mr. CALVIN. No one opposes, of course, as Mr. Caraway said, the existence of exchanges where spots of either grain or cotton or anything else is dealt in. But let us see about that, now. The cotton exchange was organized as a place to afford facilities for hedging of contracts of purchase and sale. It was not organized as a spot cotton exchange originally. That was not the purpose of it. Men do not do a spot business to a great extent through future exchanges. That was not the original purpose of them. Men transacted spot business with individuals and firms, and then used the exchange for hedging those transactions made between individuals and firms dealing in actual spots. So, if you would convert all the cotton exchanges into spot cotton exchanges only, why, then, you would destroy the function absolutely of the exchanges and convert them into the same kind of business that individuals and firms are carrying on all over the world at this time.

Let me illustrate that for you, if I may, just for a moment: Suppose I am a dealer in spot cotton in this country, say—a large dealer, for instance. I hope to make myself clear if I can, gentlemen of the committee. Let us say that over a period of years I have made my connections in Fall River in the East, and in foreign countries. That

is, let us say that I have been selling cotton to them regularly for a number of years, and they look to me for a part of their supplies of cotton, or all of their supply. I have been furnishing them the grade they want, the staple they want, the kind of fiber they want, the character of cotton they want; and they continue dealing with me from year to year. Let us say that one of the mills in a foreign country is visited some morning by a jobber who wants to buy goods manufactured from cotton; and we will say it will take a thousand bales of cotton to manufacture the goods that this jobber wants to buy for future delivery, over a period of six or eight or ten months. The jobber has got to have the goods because he has to sell them to his retail trade. This jobber goes to the spinner in Europe, who is a customer of mine. I am on this side, dealing in spot cotton, and before the millman makes the deal with the jobber he ascertains what the cotton is going to cost him on the exchange. The millman closes the deal with the jobber on the basis of the exchange price, and goes on the exchange and buys a thousand bales of cotton for future delivery. In that instance he would not deal with me, perhaps—not at that time. But later on he might send me an order for cotton of the kind he wanted, and I might supply the cotton at the proper time when he wanted it, and he would close out his future transaction—when he receives the cotton or when he makes the purchase from me.

In another case, probably he would not go on the exchange and buy the cotton at all himself, but would wire to me, his connection in the United States, and ask what can you furnish me a thousand bales of cotton for, for we will say, delivery July of this year. I have not got the cotton; and, if I had it, probably I could not carry it that long. Say I have not got the cotton, but I wire him that I will furnish him that cotton at a certain price. He accepts my offer and I go on the exchange on this side in New Orleans and buy that cotton. July comes, and I buy the cotton; I select it from all over the country the cotton he wants. I buy a certain length of staple 29 or 30 millimeters, or something like that. I get the actual stuff and get it together, a thousand bales, and ship it to my man in a foreign country; and I sell the futures bought on the exchange. I have been completely hedged; my transaction has been completely hedged and it has enabled me to do business on the narrowest possible margin perhaps less than a dollar a bale. Otherwise, if I had not had the hedging facilities, I would have had to assume a great risk, and would have become a gross speculator myself. If I had sold in advance for future delivery without any of the facilities for hedging I would have been the grossest speculator.

Now here is where the farmer's part comes in in the game. If I had not had any facilities as a buyer of cotton to hedge my transactions for future delivery, if I had bought the cotton in now, I would have had to have bought safe; that is, I would have had to make the farmer carry the risk. I would have had to increase the spread between what I paid the farmer and what the mill expected to pay me, because the market is subject to fluctuation, and I could not afford to buy this cotton and carry it along for several months without knowing what I was going to get for it.

Let me give you another illustration of hedging. I am trying to discuss this from the farmer's standpoint. We will say, Mr. Chairman, that you are a large cotton dealer. Now cotton exchanges have

been abolished. The hedging facilities would, of course, go along with them. You are a large cotton dealer and I am a cotton farmer. I come to you some morning, and I say, "Mr. Haugen, I have got 200 bales of cotton out here that I have got to sell. My land notes are due, and my year's expenses are due, and I have got to sell this cotton." You say, "Calvin, I am loaded to the guards with cotton; I have got 10,000 bales on hand. Now there are no exchanges, futures have been abolished, and hedging can not be done. I am carrying it open; the banks are carrying it for me. I have a margin of perhaps $8, $10, $15, or $20 a bale. My name is behind it, but the banks are carrying it for me. I have 10,000 bales on hand, and no orders for cotton from anywhere, and the market is dull. Now, Calvin, if I could buy your cotton and sell it to-day I could pay you 15 cents for it, but I can not sell it. I have got 10,000 bales on hand, and I can not sell any. If I buy it I have got to carry it."

Now, suppose you would say to me, "What would you do, Calvin, if you were in my place?" I would say to you, "Mr. Haugen, I would make the farmer carry the risk." You would have to do it; that is what you would have to do if you remained in business. You would have do it or go out of business. And when you do that kind of business, when you buy large quantities of cotton and carry it open you become a worse speculator than the man that is described as sitting around the wire houses and betting on the chalk marks, because you are liable to carry down with you in your transactions some of the best business institutions and banking institutions of the country. You are carrying it open, hedging facilities have been destroyed, and there is no way to do business except to increase the margin between the producer and the ultimate consumer.

As some one said here yesterday, it is not the operation of the exchanges that increases the margin or the spread between the producer and the consumer. I say, no, it certainly does not do it. It has a tendency, and does when it is operating and functioning properly, to narrow that spread to the narrowest possible margin. Why? Because if the exchanges are functioning properly, then the parity between spot cotton or spot wheat and futures is maintained, and it affords a legitimate price insurance or a hedge. It enables you as a dealer to do business on the narrowest possible margin of profit. It enables you to pay the most you possibly can, based on the market that day, for the farmers' product, and at the same time turn around and sell it later to the mills on the narrowest possible margin of profit.

Mr. TINCHER. Mr. Calvin, I can not follow you through your discussion of the cotton transaction, because I am not as familiar with that as I am with wheat. Let us transfer the discussion to wheat. Let us say that Mr. Haugen had 10,000 bushels of wheat and that wheat had been purchased over a period of 10 days. Every day that he purchased wheat he would have purchased it, not based on the future market but based on the cash market that he had that day, the cash bids that he had on the cards for that day. Is that true of cotton? You buy cotton, do you?

Mr. CALVIN. No, sir; I sell cotton; I am a farmer.

Mr. TINCHER. Does not the man that buys your cotton buy it on the basis of a cash market for cotton, instead of a gambling market?

Mr. CALVIN. No.

Mr. TINCHER. You think then that cotton is different from wheat?

Mr. CALVIN. No; I think it is very much like wheat.

Mr. TINCHER. Mr. Reynolds, who testified here, made a very fair statement about the wheat situation, and he said that he bought wheat every day on the basis of his cash offers for wheat.

Mr. CALVIN. That is true. Those cash offers are based on the future market.

Mr. TINCHER. Well, if they are based on the future market, what would the cash offers be—why do you say they are based on the future market?

Mr. CALVIN. Well, as I said a while ago, if the future market is functioning properly—and it does in normal times, outside of war times—the parity between futures and spots is maintained, you see.

Mr. TINCHER. He said the other day his cash offers were based upon the export offers to the millers here.

Mr. CALVIN. He said sometimes, when there was an undue amount of exports. I heard his testimony, too—when there was a large amount of exports, and because of that exportation wheat was bringing a good price, he sometimes based his cash price to the farmers on the export price. But that is rather an abnormal condition.

Mr. TINCHER. Well, if you do away with the futures, if you do away with gambling in the wheat futures, then you remove any doubt as to what it would be based upon. Then the man would buy his wheat upon what? Upon his card offers for cash wheat. And if he holds that wheat for 10 days or 2 months, ought not he to take that risk? If he is not willing to take it to-day for $1.65 and sell it on his cards at home for $1.65 to-day, if he is going to hold it until he thinks it will be $1.90, why afford him some gambling device for that purpose?

Mr. CALVIN. I think you have stated the question very clearly there. He will buy the wheat on these card prices. Now, then, in the absence of any exchange or future sales of any kind, who would make the cards?

Mr. TINCHER. The man that actually pays, as he said, or bids for the wheat—either the exporter or the miller.

Mr. CALVIN. You are touching one of the most fundamental and vital points in the whole proposition right now. Who is going to make the cards? Who would determine what should go on these cards as cash offers for wheat? Who would determine that?

Mr. TINCHER. The man that is going to buy the product and then sell it.

Mr. CALVIN. What man?

Mr. TINCHER. Either the miller or the exporter, and the consumer even would have something to do with determining it, because his bids for flour for that day would have something to do with it. But you propose, in addition to that, to constitute a fictitious miracle man that gambles in it and let him fix it?

Mr. CALVIN. No, sir.

Mr. TINCHER. One is right and one is wrong.

Mr. CALVIN. No, sir; I do not think that is fictitious.

Mr. TINCHER. As Mr. Caraway said, they do not have any cotton, they do not buy any cotton, they do not sell any cotton, they do not handle cotton, they never touch cotton; they gamble in the futures in cotton and live off of them. They live as between the man that

produces it and the man that consumes it, in addition to the man that manufactures it. They live and exist and prosper and thrive, while the other fellow does not prosper and thrive.

Mr. CALVIN. Let us see who these gamblers are that you refer to. I do not think they are all on the exchange to-day. If I would tell you that there are very few gamblers on the exchange you might not believe it, but it is a fact nevertheless.

Mr. TINCHER. Well, there is some $50,000,000 paid in commissions on these transactions. Who pays that?

Mr. CALVIN. Surely. It is paid by the people all over the country who buy and sell, not the men on the exchange. The men on the exchange act as agents for these people in the country.

Mr. TINCHER. Now, let use see if we are together on that. It is paid by the people that buy and sell wheat, but do not handle wheat?

Mr. CALVIN. They may and they may not; there are some of them that do not, no doubt.

Mr. TINCHER. And that is paid to whom?

Mr. CALVIN. The fellows that receive the orders.

Mr. TINCHER. That is, the fellows that run the bucket shops, the fellows that run the blackboard in Chicago, where they have the board and do the chalk marking?

Mr. CALVIN. Where the quotations are put up; yes, sir.

Mr. TINCHER. And you justify that on the proposition that it has a tendency to stabilize the farmers' market?

Mr. CALVIN. Yes, sir; I will go that far.

Mr. TINCHER. Well, that is the way they justify it.

Mr. CALVIN. Yes, sir.

Mr. TINCHER. Now, we did not have that when the Grain Corporation ceased to exist the 1st day of last June; we did not have the benefit of those gentlemen's operations until by Executive order they were permitted to resume business on the 15th day of July. From the 1st of June, without that, until the 15th day of July there was not a fluctuation of 7 cents a bushel on wheat, and within 3 days after they started operations there was a big fluctuation.

Mr. CALVIN. You will not contend for a moment that if the exchanges had not been open wheat would still be the same price?

Mr. TINCHER. I contend this, that if the exchanges had not opened the farmer would have had a stable market, just like he had before—I do not want to use the word "exchanges"; I will say, if the gamblers had not resumed. I distinguish between gambling in wheat and the legitimate exchanges in wheat. There are legitimate exchanges in cotton and gamblers in cotton. If they had not resumed the farmer would have had the benefit of a more stable market for his wheat, and the consumer would have had the benefit of a more stable price for his flour, because he would not have been affected by the gamblers. The example we have of the situation in that brief period of time in which the legitimates were permitted to run the markets is, it seems to me, unanswerable.

Mr. CALVIN. Well, I repeat the question: Do you believe for one moment that if the wheat exchange had not reopened wheat would still have remained at the same price?

Mr. TINCHER. I do, for this reason: When those men went in there and made fictitious sales of wheat they beat the prices down, and those same men will profit again this winter by putting it back up;

and the consumer and producer will both suffer by reason of that manipulation, which is nothing more nor less than plain straight gambling.

Mr. CALVIN. Let us see. Of course, when we make statements like that they are generally pretty broad. To whom do you refer? Who is it that desires to put wheat down at this time and put it up again in the winter? To what agency do you refer?

Mr. TINCHER. I refer to the people that did do it.

Mr. CALVIN. You know, the speculator pure and simple has no interest whatever in low-priced stuff or high-priced stuff; he does not care anything about that. He is passive about prices. All he wants to do is to speculate, and he does not give a continental what the prices are.

Mr. TINCHER. Do you mean to say they do not want to adjust to the low-water mark when the farmer has it and to the high-water mark after it leaves him?

Mr. CALVIN. I believe the speculator likes a high market better than a low market. A high market is an active market, always, a changing market. A low market is a sagging, a regular market, and there is no chance for variation or speculation. So the speculator, as such, pure and simple, always favors a high market, because it is an active market and gives him a chance to get in and out.

Mr. TINCHER. How do you explain this proposition? The price of corn, without the production of an ear of corn, changes a dollar a bushel from one season of the year to another.

Mr. CALVIN. Yes, sir.

Mr. TINCHER. There is that much of a change from the time the framer delivers the bulk of his corn in the fall until the time some other poor farmer buys the last of it to make his next crop with.

Mr. CALVIN. Well, I have seen potatoes change $2 a bushel. I have seen other farm products change more than that, products that are not dealt in on exchanges at all. Those changes come about whether we have got an exchange or whether we have not. It does not make any difference.

Mr. TINCHER. Your theory then is that the eveil exists, that the unfairness in marketing exists, and that to do away with this gambling would probably hurt instead of help?

Mr. CALVIN. How is that?

Mr. TINCHER. Your theory is that that evil exists, and will continue to exist, and will perhaps exist in worse degree if we do away with gambling in futures?

Mr. CALVIN. My position is this, that the exchanges perform an economic function in the system of marketing farm products. And my position is this, further, that if the farmers did not have the facilities afforded by the exchanges of the country for the marketing of their products, they would be solely and absolutely at the mercy of some one great institution in the country that would forever fix the price upon everything they produce, and fix it as rigidly as the steel company fixes the price of steel, as rigidly as the International Harvester Co. fixes the price of farm machinery, and as rigidly as John D. Rockefeller fixes the price of oil. I do not believe anybody can challenge that proposition.

Mr. TINCHER. Well, Rockefeller produces the oil. The steel company produces the steel.

Mr. CALVIN. Listen, my friend, I will tell you what I will do. If you will join hands with me and hundreds of others who have been working in the interests of the farmers for the last 15 years to organize the farmers, until the farmer can become the Rockefeller of his business or the Carnegie of his business or the International Harvester Co. of his business—that is what we have been trying to do, and when that day comes, let me tell you here and now that the exchanges will go out of business voluntarily, because the fluctuations of the market will have ceased.

Mr. TINCHER. What farm organization are you working for?

Mr. CALVIN. I have been working in the Farmers' Union for the last 15 years. As I said in the beginning, I was president, both State and national, at one time.

Mr. TINCHER. And you represent that organization officially here?

Mr. CALVIN. No, sir; I do not.

Mr. TINCHER. The Farmers' Union in my State have indorsed this legislation. They are asking for it.

Mr. CALVIN. Well, the farmers' unions in the various States differ, don't you see?

Mr. TINCHER. The Farmers' Union are not willing to say to Congress, "Do not pass any laws for us; we are going to work for ourselves."

Mr. CALVIN. I am not saying that; I have not finished my statement yet. I started to tell you awhile ago that according to my view our Cotton Futures Act has functioned properly, and I am here to defend it.

Mr. TINCHER. Have you read any of the bills that are before this committee?

Mr. CALVIN. Yes, sir; I have read most of them.

Mr. TINCHER. Have you read the bill that I introduced?

Mr. CALVIN. I do not recall it by name, whether I have or not. I read one bill that provided for a 30 days' period of delivery, and another that levied $20 on every man that dealt on the grain or cotton exchanges, and Mr. Caraway's bill, which provides for abolishing the cotton exchanges altogether.

Mr. TINCHER (handing copy of the bill to the witness). Have you read this one? The definition of the word "exchange" is very important in these hearings, because so many people talk about exchanges.

Mr. CALVIN. I do not believe I have read that bill.

Mr. TINCHER. I wish you would examine that and indorse it. [Laughter.]

Mr. CALVIN. I would not feel like indorsing it, because I would not feel that I could speak for our farmers to that extent. That refers to wheat, and that is a subject with which I am not altogether familiar.

Mr. TINCHER. It covers cotton, too; I never introduced a sectional bill in my life.

Mr. CALVIN. That is a wonderful spirit; it is to be commended.

Mr. TINCHER. But I would not want your testimony to be construed as a denunciation of my bill unless you have at least read it.

Mr. CALVIN. I have not denounced anybody's bill yet; I do not intend to.

Now, the exchanges do this. They afford to the farmer a regular market. Have you ever tried to figure out just what would be the result if there were no exchanges at the present time, no dealing in these world-wide commodities, a large percentage of which must be exported, going to foreign markets?

Mr. TINCHER. Right here, let me call your attention to this, so that there may be no misunderstanding. You are making a speech against exchanges, and it might be taken by some members of the committee as being against the proposed legislation. The bill that Senator Capper and I have introduced has the indorsement of the legitimate grain exchanges in some of the biggest centers in the United States. Now, a grain exchange, a great big building that houses a thousand men engaged in the grain business, does not necessarily harbor more than a hundred or two that are gamblers in grain futures. I want you to bear in mind that distinction between an exchange and what we consider illegitimate gamblers.

Mr. CALVIN. I wish you would remind me to say something about that very difference between the two before I get through; but there was something I wanted to say in connection with your statement that certain grain exchanges have indorsed your bill.

Gentlemen, I heard the president, I believe it was, or some one representing the president, of the Southwestern Millers' Association testify day before yesterday, and in his statement he indorsed this legislation and indicated that he believed the exchanges ought to be done away with. I find that same idea in the cotton trade to some extent. Since the exchanges were closed in 1914 and the more avaricious of our cotton men got a taste of what they could do when the cotton exchanges were closed—that is, go out and pay what they pleased for cotton, because the bargaining power of the farmer was not equal to theirs—many of them are arguing to-day for the abolition of the cotton exchanges. Before coming up here I talked to some of the cotton men in Houston, some of the biggest cotton men there, and the majority of them told me they felt no interest whatever in this cotton legislation, that they would just as soon see the cotton exchanges abolished as not. And each and every one of them admitted finally that with the cotton exchanges abolished they could increase their margin or spread. Why? Because then the farmers would not be in possession of the information that enables them to obtain the market price for their stuff.

So do not overlook the fact that certain middlemen—I do not want to criticize anybody, but it will be to the advantage of certain middlemen to have the exchanges abolished entirely. It would be to their advantage, but it would not be to the advantage of the farmer. As I said before, if they were abolished we would then have to have a Carnegie of the wheat trade, a Rockefeller of the cotton trade, and that would doubtless be some great concern—I won't say McFadden & Co., but they are, I suppose, the biggest cotton firm in the world, and it would be logical that they should become the price fixers for the world.

Then what would happen? Men in the cotton business buy cotton on limits. They get these limits every morning, and they buy from the farmers. Now then, from whom would they get the limits? Why, they would get them from the one great concern that was able finally to constitute itself the dictator of prices throughout the world. That

is where they would get them from; they could not get them anywhere else. It is inevitable. Before stuff can be bought throughout the country their men must know what the market is. The men must know what they can get for it when they sell it. So they must look to some great central head somewhere or other to say to them every morning, by wire or otherwise, that to-day cotton will bring a certain price, or to-day wheat will bring a certain price.

Do we want a condition like that? Men have appeared before this committee and made the statement that the International Harvester Co. does not sell futures, and all that kind of stuff. Well, gentlemen, that is not a parallel case at all. In one case the concern is big enough to dictate the price; in the other case the farmer who holds the raw material is not big enough; he is big enough if he is organized, but he is not organized sufficiently to dictate the price to anybody. Then the dictation must come from the other ends; that is the inevitable result.

So I am not surprised when men come here who are engaged in the wheat business or in the cotton business—and some very intelligent men engaged in the cotton business will come before this committee and advocate the same thing that Mr. Caraway advocates. Why? Because with some dictatorial power sitting up yonder and every morning sending out telegrams throughout the world as to what cotton shall bring, saying, Buy on a certain basis to-day, the farmer does not know any more about what the man up yonder has said that cotton shall be worth to-day than the man in the moon. And that is what we will have, absolutely and inevitably, when you abolish the exchanges.

Mr. RIDDICK. Might not that very fact hasten the day when the farmers will organize, and instead of there being a buyers' market might not the producers and sellers have something to do with fixing the prices?

Mr. CALVIN. If the legislation passes I sincerely hope that will be the result.

Mr. RIDDICK. Well, would you not think that legislation along that line would be helpful in that direction?

Mr. CALVIN. It is said that necessity is the mother of invention. It may be that in time the farmers would see that the prices were being dictated to them by some power that they can not see, by some man sitting in a place on his throne, and would revolt, and there is no telling how far they might go.

Mr. TINCHER. You think the trouble would be that if we would exchange the bunch of gamblers who dictate the price now we might make a bad trade?

Mr. CALVIN. I can not agree with you that any bunch of gamblers dictates the price. The gambler gambles in the market as he sees it, as he thinks it is going up or down. He does not gamble to make a market, but because there is a market and because there is a variation in price.

Mr. TINCHER. Let us see if you are right about that. They do not sell millions of bushels of wheat to put the price down, and then buy wheat to put it up again?

Mr. CALVIN. Who sells millions of bushels of wheat to put it down?

Mr. TINCHER. I say, you do not say they do not do that?

Mr. RIDDICK. I do not know whether that is true or not, but I have read that the wheat exporting interests right now have pooled their interests and that they refuse to go on the market on certain days to buy wheat for exportation, and on certain days they do go in and buy wheat intending to bring the price up, and then to hammer the price down they sell some of their purchases. Is that probably true?

Mr. CALVIN. I do not know about that; I have seen reports to that effect.

But let us get the fundamental side of this question in view. Speaking of gamblers setting the market by offering thousands and even millions of bushels of wheat, I concede that it is possible on the Chicago wheat market or the New York or the New Orleans Cotton Exchange to sell the price of cotton or wheat down, because you have the money to put up the margin and back your transactions; but I also say you would be a fool if you did it, and the gambler is not a fool, as a rule. He does not dare sell the market below what he considers the market, based on the law of supply and demand; for the reason that every bale of cotton that you sell, backed by your millions of dollars, and every bushel of wheat that you sell, backed by your millions of dollars, must be bought back by you—not by somebody else, but by you—before you can close.

You may have millions of dollars of profit on paper, but before you get through buying your stuff back that you have sold you may have millions of dollars of loss, and that is usually the case.

There is nothing that the gambler likes—if you are going to call him a gambler—like a man going in and setting the market vigorously, because it creates a healthy condition. Why? Because they realize, each and every one of them, that he has got to buy every bale of it back, or every bushel back, and when he goes to buy it back they pinch him. They are in it for the money, and they make him pay for it.

I am telling you that the ordinary gambler, the man that has been designated as a gambler, is the little fellow that pikes in, makes no effort to control the market, but gambles because there is a market to gamble on. I am not guessing at that phase of the question at all: it is absolutely true. Somebody once said, "Oh, if mine enemy would write a book." Back as far as 1909 I tried to write a book on this question, I got so thoroughly stirred up over it when I was fighting for the farmers. Then the great question was to distinguish by law between the bucket shop and the legitimate warehouse, and it took two or three good lawyers two or three years to work out a plan, but it finally worked out and was satisfactory, and I think the courts throughout the country have recognized that there is a difference.

Mr. RIDDICK. Take these thousands of inexperienced people who jump in and out of the market, buying and selling wheat just because there is a market. Do most of them make or lose money?

Mr. CALVIN. Oh, they make an even break, I suppose, like fellows playing poker.

Getting back to the question that we were discussing, somebody said that millions of dollars of margins had been paid on the Chicago Board of Trade. I go on an exchange—I never was on the Chicago Board of Trade, but I have been at New Orleans—and I see

50 or 75 men around the ring. You know what that ring is, where they buy and sell. Now, I doubt if there are half a dozen that are buying and selling for their own account at all; they are executing orders for the country. They are commission men or the representatives of commission men. The farmers are buying cotton. The farmers are selling cotton. Some of them are speculatively inclined. Some of the merchants do it.

There are thousands and thousands of bales offered every day as hedges that must go through. A considerable quantity of these orders are legitimate hedges, and they are being transacted, and they go to the commission men and are executed on the exchange.

So this little fellow that we call a gambler—there are not many of them on the exchange; they are around through the country, buying and selling, because they think the market is going up or going down. As Brother Caraway said yesterday, somebody convinced the Baptist Church up there that it was safe to buy cotton, and they bought some and it was wiped out the next day. There are orders like that from all over the country coming in and being executed.

Now, those men in the country do not feel that they are influencing the market. You talk to one of them, a farmer out in the country. He does not feel that he is affecting the market by his buying or selling some wheat. He is speculating; he thinks wheat is going higher and he is buying because he thinks so, or he thinks it is going lower and he is selling because he thinks so. He is away off to himself. And, believe me, they come in, many more than people would think for. I know many people over all the South who are speculating the year around; thousands of them do it. They are the gamblers we are talking about.

Of course, we are inclined, you know, to talk about a mysterious something up there that is doing certain things, fixing the prices in the future, and yet 98 per cent of those fellows on the exchange are executing orders for people all over the country who have no idea that they are gambling, who are buying and selling just simply because they think the price is going up or down.

I started to say awhile ago that the exchange made a ready market for the farmers' products. In the South the cotton farmers are apparently determined in spite of all we can do to sell their crop in three or four months. I wish that God Almighty or some other power would take them and show them that it is not to their advantage to do that. But, gentlemen, you all know that we have been preaching in this county for 25 years to market your stuff slowly, and yet in spite of that it will be dumped in the fall of the year, and then men come in here and talk about the market going down in the fall and up in the spring. And the farmer that sells his cotton does not know that he himself is the bear on the market.

Mr. McLAUGHLIN of Nebraska. Mr. Calvin, may I say this right there? Of course, no doubt, the men in your position are in financial shape to hold the crop and distribute it throughout a period of months, but is it not a fact that a majority of the cotton producers and the grain producers can not do that?

Mr. CALVIN. I was coming to that very thing. Our effort has been to get them to try to put themselves into shape to do that, and I do

not believe we will ever solve this question until by some method we do enable these farmers to understand that it is to their interest to sell this stuff slowly and as the trade demands it, and not flood the market in the fall of the year, which always breaks the market.

Mr. McLAUGHLIN of Nebraska. And so finance them as to enable them to carry it.

Mr. PURNELL. That means, then, that the Government must step in and finance them? Any plan you might have would not anticipate anything else?

Mr. CALVIN. I do not know how to work that out. I am one of those old-time fellows that are opposed to the Government doing anything for a man that he can do for himself. I was just raised that way.

Mr. PURNELL. I think we are all about that way.

Mr. CALVIN. Yes; I feel that we are taking too much of the initiative away from the American people, and we are doing that right in this legislation. A lot of people have gotten the farmers to believe that there is a cure-all in this legislation. I make the prediction that if you pass this legislation you will never see any visible results of it on the farmers of this country or the farmer's product. We are attracting the farmers' attention away from the fundamental things that he must do in order to improve his condition. We make him believe that sitting up yonder in Washington is a body of men that could fix everything if they would, but they won't do it. Gentlemen, it is wrong. It makes him a rainbow chaser instead of making him look at his own business in the proper light and try to remedy certain conditions.

However, mark you, I believe the farmers ought to have a square deal always. And I will go further and say that I believe if we are to have a tariff upon the manufactured article, we should have a tariff upon the raw material. I am a tariff man all the way around, or a free trader; that is the way I stand on the tariff question. And if you gentlemen are going to pass tariff legislation to protect the other interests, then we want the tariff to apply to cotton—not to cotton so much, because the imports are so small that it would not affect us, but to apply to the farm products that are affected by the importation of products from foreign countries.

Now, let me come back to this other point that I wanted to bring out, about where the farmer will be in the marketing of this stuff if he does not change his plan of marketing. Somebody asked yesterday, Who carries this stuff? The speculator does not carry it, does he? It was spoken of in connection with a storage company—who carries this corn? The answer is, the elevator man and the middleman carry it. Somebody says, "Then the speculator does not carry it?" No; he does not carry a bushel of it; the middleman and the elevator man carry the grain. But how do they carry it? Gentlemen, if that middleman or that elevator man could not hedge his transactions he could not afford to carry it, because he would become a rank gambler and speculator himself.

Mr. HULINGS. Nobody has to carry any of the actual stuff, do they? All these speculative transactions, or gambling transactions if you choose to call them that, are simply carried on this margin, the margin to make the contract good?

Mr. CALVIN. Surely.

Mr. HULINGS. There is no carrying of any of the actual stock?

Mr. CALVIN. Oh, my—I was discussing the cotton situation in the South; we produce a year's supply and sell it in three months. The mills take it in 12 months. Who carries the surplus? That is the question. Why, the middleman.

Mr. PURNELL. If the elevator man hedges he does not carry anything, does he?

Mr. CALVIN. Why, he carries the actual grain.

Mr. PURNELL. But he does not carry the risk?

Mr. CALVIN. None whatever, and that is exactly what we want. That enables him to pay the farmer all there is in his stuff, and enables him to sell it to the manufacturer at the lowest possible price.

Mr. PURNELL. Who carries the risk, then?

Mr. CALVIN. Part of that risk is carried through hedging, you understand. Of course, part of it is carried through speculation, but it is not the same kind of a risk. For instance, it is possible for a man to commence when wheat is bringing $3 a bushel and buy and sell the market in equal quantities every day, buying a hundred to-day and selling a hundred to-morrow, buying a hundred the next day and selling a hundred the next day, and go down to the bottom of the market and never lose anything.

Mr. PURNELL. But you can not let the elevator man hedge and get insurance in that way without letting somebody carry the risk.

Mr. CALVIN. That is carried by the people who deal on the exchange.

Mr. PURNELL. The speculators?

Mr. CALVIN. The speculators—not all speculations, because many of them may be hedging transactions. In other words, my hedge may offset yours; one hedge may butt up against another one.

Mr. PURNELL. A hedger is a speculator, is he not?

Mr. CALVIN. No, sir; there is where we have to make a distinction. The man that hedges hedges so that he will not have to speculate; he hedges to avoid speculation.

Mr. PURNELL. You mean he does not take a chance?

Mr. CALVIN. His object in hedging is to take no chance. That is the meaning of the word.

Mr. VOIGT. But the man that takes the other end of the hedge is a speculator?

Mr. CALVIN. Unless there is another hedging transaction at the other end.

Mr. VOIGT. But as a general rule, in 9 cases out of 10, he would be a speculator?

Mr. CALVIN. As a general rule, I should say there is a speculator.

Mr. PURNELL. That risk has to be carried on to some point. If two hedges abut then the fellow who bought on the other end has bought a product that he expects to manufacture into some commercial article?

Mr. CALVIN. Yes, sir.

Mr. PURNELL. Then he is going to pass that on to the consumer in the end, is he not? Somebody has got to carry that risk?

Mr. CALVIN. I can not say that he will pass it on to the consumer. Let me illustrate. Here is a man that is manufacturing cotton—I know more about that. We will say cotton is 15 cents now. Well, he buys a future contract of cotton for 15 cents for July delivery

next year. In the mean time he is going to buy actual cotton to manufacture goods out of, which he is selling. Well, he buys that future contract. He goes ahead, and cotton goes to 30 cents.

Now, if the parity of spots and futures is maintained, which they usually are, that man can go ahead and sell. He has had that hedge, you see. He can go ahead and buy his cotton in that he has bought futures as a hedge against, you understand, and still sell his goods to the consumer based on 15-cent cotton. He would not be passing anything on to the consumer there. He can still manufacture his goods out of 15-cent cotton, although he paid 30 cents. Why? Because he bought a hedge when it was 15 cents. It may be vice versa but if you even those things up you will see that they just about average.

Mr. VOIGT. Let me see about that. If the manufacturer buys cotton at 15 cents and hedges on it, and the price of that cotton goes up to 30 cents when he has the goods manufactured, he is going to ask the consumer of those goods to pay a price based on 30-cent cotton is he not?

Mr. CALVIN. Oh, I am only telling you what he can do; he can sell on the basis of 15-cent cotton.

Mr. VOIGT. But you know he will not do that?

Mr. CALVIN. He ought to do it, I am telling you. But suppose that he contracted to-day for a thousand bales at 15 cents and next June it is down to 5 cents. He has lost 10 cents, but he has got to sell his goods on that basis. In that instance, you see, spot cotton goes down, and he buys his spot cotton at 5 cents. So, I say, in the aggregate it about evens up. If you will just take your pencil and figure out the hedging transactions that go on throughout all business you will find that it just about evens up.

Mr. TINCHER. Here is a good illustration of what you are saying I think: Yesterday cash wheat No. 2 in Chicago sold for $1.82; that was the market. Now, these philanthropists who are stabilizing the market and gambling in wheat had a market of $1.73 for March—$1.73 a bushel for the same class of wheat; May, $1.67 for the same option. There will not be any wheat thrashed and put on the market between now and May, and the only object of the gamblers' handling that future market in that way is to depress the wheat market.

Mr. CALVIN. Now, let us see who is doing that. Who is the gambler that you are referring to there, and what object has he go in view?

Mr. TINCHER. I do not know which individual one of them went on the board of trade of yesterday and kept the future price down 10 or 12 cents below cash. Maybe their representative will be here to tell us.

Mr. CALVIN. If any man did go on the board of trade and keep it down through the weight of money—and that is what it takes—then the men that do not believe like he does will make him pay for it when he buys it back.

Mr. TINCHER. The history of this bunch of philanthropists for 20 years has been that they have handled the farmers' product in just that way, with the possible exception of not to exceed two weeks in 20 years.

Mr. CALVIN. The view I have of that is this. This speculation is based upon world conditions; it is the concensus of opinion of

the people generally as to what prices are or should be at a given time, and that is reflected through actual purchases and sales, and if we did not have that we would have to rely upon some other agency to determine that for us, which agency would be off in a dark corner, no telling where, maybe in Europe.

Mr. TINCHER. What good did that agency do yesterday? It existed yesterday; it operated yesterday. If I had had wheat at home yesterday I could have sold it, based on Chicago, at $1.82. Now, if I had been a legitimate dealer in grain at home yesterday and had bought wheat from the farmer to sell, shouldn't I have sold cash wheat instead of gambling in June options or March options? Shouldn't I have bought that wheat and then sold it yesterday?

Mr. CALVIN. As I said, I am not so well acquainted with the operation of the grain exchange, but I will say this, and I believe Mr. Meadow, of the Department of Agriculture, will bear me out. Recently the cotton market—that is, the relative difference between futures and spots—has been pretty well maintained, and now futures are a little higher than spots. That is in the cotton market, and that is the reason I believe, gentlemen, that we have a pretty good law. There was a time, Mr. Chairman, during the war, when the cotton exchanges did not function, and futures were away below spots. Why? Futures at one time were 8, 9, or 10 cents below spots. It was just this. The manufacturers were making such enormous profits out of the manufacture of cotton goods that they were willing to pay any price for the kind of cotton they wanted delivered to them now—not in the future. And they went into the country and found the cotton they wanted, and they paid the price for it. The result was that for spot delivery then and there men were willing to pay any kind of price, because it was not a question of the price of cotton; the question was to get the kind they wanted, because the profits were there if they got the cotton. That was all there was to it.

During that time the cotton exchanges did not function properly, but since that time has passed we are getting down to the old basis that we had before the war, and it seems to me the law is functioning perfectly.

Mr. TINCHER. Yesterday cash corn No. 2 sold in Chicago for 34 cents. These philanthropists trading in futures have the same price exactly for May corn and 1 cent more for July corn; and I think that yesterday experienced men explained to this committee that there should be at least a loading and shrinkage allowance of 3 or 4 cents a bushel on that corn. I just want that to go in to show how the philanthropists are operating those two markets right now.

Mr. CALVIN. I would much prefer that some representative of the grain exchange answer those questions, because I do not know enough about the grain exchanges to attempt to do so myself.

But I want to get back to this point of what the farmer should do, in view of the fact that they market so much of their stuff in the fall of the year, especially in the South, where it seems we must market our cotton in three or four months. Under the present system the men who buy our cotton, the middlemen, buy enormous quantities. The banks finance it for them, and they hedge every bale that they purchase. When they buy a thousand bales they

sell a thousand bales against it. That gives them a cash advance, the banks extend larger credit to them, they have to put up less margin, and they can take care of enormous quantities of cotton. We come along and sell cotton to these middlemen, and it makes a ready market every day.

But if hedging facilities were done away with the middlemen would not dare carry these enormous quantities of cotton; they could not afford to do it, because the threat of war in some foreign country might cut the market in two in one day. Take a man with ten, fifteen, twenty, or fifty thousand bales of cotton on hand. There is a threat of war somewhere, and the market goes half in two. Under the present system that man knows that he can hedge and that the parity between spots and futures will be maintained. The result is he can go to the farmer and pay him every dollar there is in the cotton and deliver it to the other fellow at a reasonable price above what he pays the farmer. Otherwise he would have to increase his margins. There is no telling how much he would have to increase his spread to justify him in carrying this immense load.

Mr. RIDDICK. Now, Mr. Calvin, you seem to think this present system is so commendable——

Mr. CALVIN. I do not say it is commendable.

Mr. RIDDICK. Well, you seem to be defending it. It just occurs to me from a public point of view—not only from the standpoint of the farmer but from that of the consumer—that there is a vastly wider spread than there should be between what the producer receives and what the consumer pays. Of course somebody is entitled to carrying charges and shrinkage and all that, but is it not true that under our present marketing system somebody is deriving a great deal more compensation than they are entitled to for that service rendered the public?

Mr. CALVIN. Yes, sir. By the way, I will try to get hold of a copy of a hearing that I had last year before the committee investigating the cost of living in the District of Columbia. I will write down to Houston and get some copies of that, because that brings out the very thing you are talking about. Anyway, the local newspapers here thought enough of it to give it a great deal of space.

Mr. RIDDICK. As I understood you, you said you had not read the Tincher bill. As I understand the Tincher bill, it provides for hedging among men who actually have the goods to sell or actually desire to have the commodities, but does away with the purchase or sale by people who enter the market merely for speculation.

Mr. CALVIN. A bill like that would convert a future exchange into a spot exchange. We do not want our spot exchanges in New Orleans or New York; we want our spot exchanges at our own doors. If either one of these exchanges operated under that bill it would have to be a spot transaction, because only men having spots could deal in them.

In Manchester, England, they have a spot exchange which I have visited. They have a future exchange in Liverpool. We will say some man has bought a thousand bales of cotton for future delivery on the Liverpool exchange. He goes on the spot exchange and he deals with you. He walks up, and he says, "My friend, have you so many bales of such and such cotton?" These mills all want a certain amount of cotton. "Yes, I have got it." "What is the

price?" You barter as to the price, and you agree. He turns around immediately and closes out his future contract; one works with the other. But if you confine the operations on the exchange to the men who have actually got stuff to deliver you make a spot exchange out of it, and only a spot exchange, and you destroy the hedging.

The CHAIRMAN. The bills before the committee have no reference to spot exchanges.

Mr. CALVIN. But they will make spot exchanges out of them.

The CHAIRMAN. We have spot exchanges now, and nobody suggests doing anything with them.

Mr. CALVIN. If you pass this bill limiting the dealing to men who have actually got the stuff, then you convert the thing into a spot exchange and only a spot exchange. You destroy the hedging facilities.

The CHAIRMAN. What is your contention as to these bills? Would they do away with futures?

Mr. CALVIN. The one pertaining to cotton will. Mr. Caraway's bill will destroy the exchanges, and I think Mr. Caraway will tell you so.

The CHAIRMAN. What about the other bills?

Mr. CALVIN. Mr. Tincher, is your bill the one that provides for the $20 tax, or is that Senator Capper's bill?

Mr. TINCHER. I do not think Senator Capper's bill has the $20 tax.

Mr. HULINGS. This bill excepts from the payment of the tax the seller who was at the time of making the contract the owner of the actual property; and persons, firms, or corporations who were at the time of the making of the contract regularly engaged in the business of growing, dealing in, or manufacturing actual grain, grain products, or cotton, and who are registered. It makes them free of the tax levied, to an amount in the aggregate of not more than three times the quantity of the actual grain or cotton sold by such person during the fiscal year.

Mr. CALVIN. Well, I do not know—I will tell you my attitude as plainly as I can. We passed the cotton futures act in 1914, I believe, after several years of work and after farmers all over the country had indorsed the legislation, demanding legislation just like the grain exchanges are demanding it to-day, and I came here a half dozen times to try to get some legislation.

Now then, that bill commenced functioning, and it seemed to me like it functioned perfectly well for a while; that is, that the parity of spots and futures was maintained. Then one of the courts in New York yanked the bill up and declared it unconstitutional, on the ground that it originated in the Senate instead of the House of Representatives, because it had a tax feature in it like this. It was not a revenue bill, but the court declared it unconstitutional.

Then it took us until 1916 to get the bill reenacted, and we worked ardently on it. The Department of Agriculture and the farmers and everybody worked to get it reenacted. Then about that time we got into the war, and everything became disorganized and nothing could function. Now, since the war is over, the exchanges operating under that law have gotten back to functioning properly again, and what we want now is to try this law out. The operation of this law

has been disturbed very seriously, but now it is getting back to work again.

Mr. RIDDICK. Is it not a fact that during the war there was less spread between the price the producer received and the price the consumer paid, and hasn't there been an increase since the grain exchanges were reopened?

Mr. CALVIN. I do not know what has happened since then, but I do know that during the war and even now the spread has been several times greater than it was previous to the war.

Mr. TINCHER. I am willing to make the statement that while gambling in wheat was suspended during the war the spread was much smaller than it was before or has been since.

Mr. MCLAUGHLIN of Nebraska. That is true.

Mr. RIDDICK. There was a very narrow margin.

Mr. CALVIN. It might have been so up North, but it was not down South where we buy your wheat and flour.

Mr. RIDDICK. It was the country over.

Mr. CALVIN. I am surprised at that statement, because during the war the spread between the producer and the ultimate consumer was greater on everything else than it was on wheat. It increased 200, 300, and 400 per cent.

Mr. RIDDICK. In common with all cotton products?

Mr. CALVIN. No; cotton products increased a thousand per cent between the producer and the consumer.

Mr. RIDDICK. They regulated wheat and did not regulate cotton.

Mr. TINCHER. The price of wheat was fixed by the Government.

Mr. CALVIN. We used to have some cooperative concerns in Texas—I am familiar with the deals—especially in flour. Prior to the war we handled flour on the basis of 5 cents on a 50-pound sack. I am telling you that during the war that 50 cents a sack profit was allowed by the Food Administration. How can you figure out the spread was larger? Many are charging 50 cents a sack yet for handling flour now.

Mr. RIDDICK. The price of wheat has gone down to about half what it was, though the price of bread has not changed.

Mr. CALVIN. I will bring you that, and I will weigh the wheat before the committee and show the facts, and give the price of the wheat and give the number of pounds of bread produced out of a barrel of flour, and if you do not agree with me that it has increased about 500 per cent instead of being less, I will eat all the bread.

I want to say this, repeating what I have heretofore said: We are trying this law out, so far as cotton is concerned; it is functioning fairly well. We want to try it thoroughly. We believe it is going to accomplish the purposes we have worked for a number of years, as a number of Congressmen will verify, and finally brought about the enactment of it. Now, then, we want to try it out thoroughly and see whether or not it is going to work as we believe it will work. So far as grain is concerned, that is a question for you people to determine for yourselves.

Mr. VOIGT. Let me ask you a question: Is it your opinion that if a law were passed stopping purely gambling transactions in grain or cotton that the grain and cotton exchanges would close entirely?

Mr. CALVIN. Absolutely: there is no way out of it.

Mr. VOIGT. You do not think there would be any business left for them?

Mr. CALVIN. If gambling transactions or speculation was killed, then there could be no hedging, and that is the function of a cotton exchange; so that would destroy the exchange.

Mr. VOIGT. The purpose of the Tincher bill is not to destroy hedging entirely. You are a little at a disadvantage by not having read the bill.

Mr. CALVIN. I know the general principles of the bill.

Mr. VOIGT. Supposing hedging were allowed to a party who actually owns the commodity and to a party who actually intends to acquire that commodity, do you think then the exchange would close?

Mr. CALVIN. Exactly; that gets back to the same point because they could not exist. A hedging contract could not be made of that kind. To illustrate, as I did awhile ago: The chairman here [illustrating] is a manufacturer who wants to buy a hundred bales of cotton. He has sold cloth to-day requiring that much cotton to produce.

Mr. VOIGT. Let me stop you right there?

Mr. CALVIN. Yes, sir.

Mr. VOIGT. If he wants to buy that cotton, then under this Tincher bill he is permitted to hedge.

Mr. CALVIN. That is what I am going to tell you—but he could not get a hedge probably.

Mr. VOIGT. Why could he not?

Mr. CALVIN. That is the very point I am going to bring out in my illustration. He wants to buy a hundred bales of cotton. He was going to make the deal, and he would be permitted to hedge under the Tincher bill. He wires an exchange to buy 100 bales for July delivery. I am a dealer back here (illustrating), but I have not any cotton to offer him. I am not selling any hedges myself; in other words, I have not bought any spot cotton. I have 10,000 bales on my hands. Therefore I have no hedge to offer. His order comes in there, and maybe tomorrow or the next day I am going to offer spot cotton and could take a hedge. There is nobody there who wants to do it. But here is a speculator on my left (illustrating) who is willing to take that contract, and he sends in, and he does buy, and the next day I come in to sell on it and he buys from me.

Mr. RIDDICK. Why do you assume you would not have any when he wants to buy?

Mr. CALVIN. Men who hedge for protection do not want to wait a day or a week, because they trade on the market, and they want to hedge on it just exactly at the price they are selling their goods at. So when they send the order in they want an acceptance in a minute or two minutes.

Mr. RIDDICK. If you are in the cotton business you are going to skirmish around and get some cotton.

Mr. CALVIN. It may take them a week to hunt me up and get the cotton the chairman wanted.

Mr. VOIGT. Is not that the legitimate function of the exchange?

Mr. CALVIN. Hedging?

Mr. VOIGT. No; to bring the buyer of the cotton and the seller of the cotton together?

Mr. CALVIN. No, sir; the legitimate function of an exchange is hedging.

Mr. VOIGT. Is not that what I had said—that hedging is the legitimate function of an exchange?

Mr. CALVIN. No, sir; it may be on a spot exchange, but not on the future exchange. We must distinguish between a spot exchange and a future exchange, if we ever arrive at a conclusion of this matter.

Mr. VOIGT. Who are the legitimate parties who have the right to seek the protection of a hedge?

Mr. CALVIN. Men who are dealing actually in the stuff—farmers who are growing cotton. For instance, this will be a hedge: I am a farmer; I have sold some cotton in that way. This spring I may say that the market looks like a good price to me, in my opinion, and I have a right to back my opinion, although some people would call it gambling. I have planted a hundred acres of cotton, and I am reasonably sure of making 50 bales. I get one of my neighbors, who is going to make 50 bales of cotton, to join with me in February, and we sell 100 bales for October delivery. October comes around. I have hedged my crop during the growing season. I gather my crop, and I sell it. I do not deliver it to that exchange over yonder (illustrating); that is too inconvenient; that is not my spot market. My spot market is at home. I will gather my cotton, and I sell it on my spot market. Then I sell my hedge over yonder, don't you see? I have been hedged during the year.

Mr. VOIGT. I do not understand that the object of the Tincher bill is to prevent that sort of a hedge.

Mr. CALVIN. I was just going to tell you who would be permitted to hedge. You are a big spot dealer in Houston, Tex. You have your connections in Europe. In order to hold these connections you have got to sell to them when they request it of you, if you can agree on the price. So, this morning, they wire you they have sold goods over there and must have a certain amount of cotton. They make you an offer on a thousand bales of cotton this morning. You have not got a bale of that. Do you get me? They want it for July or October delivery. You have not got a bale of that cotton. You sell it to them just the same. You have got to sell them that cotton, or somebody else will sell it to them, and you will lose your connection. They have been dealing with you for years. You have got to sell it to them if the price is right, and you could not get out in two months and hunt up the kind of cotton they want. What do you do? You sell to them and buy a thousand bales on the exchange. You are entitled to hedge. Why? You are not growing cotton, but you are in the business, and your obligation is to deliver that cotton to that man you sold it to on the spot. Some time during that year you have got to get that cotton, and you have samples of it from a dozen counties. You have got to bring it to a concentrating point. You have to go through 10,000, or 15,000, or 20,000 bales to get that amount of the kind that man wants. You would be entitled to a hedge. I do not know whether you would under the bill, but you ought to be. You have not got the cotton. You would be selling something you have not got, absolutely, but you would have to do it.

Mr. VOIGT. You say that this man who wants to buy cotton in Europe goes onto the market and he can not find a single bale of that cotton? What right have you got to make that assumption? If you have a cotton exchange where people have cotton for sale and could sell a future hedge, why can not you buy that hedge just as well as you can buy one to-day?

Mr. CALVIN. Why could not I buy that hedge?

Mr. VOIGT. There will be just as much cotton in the world then as there is now.

Mr. CALVIN. There would not be any liquid market. To-day there would be a sale, to-morrow another, and a week later another, and there you would go.

Mr. VOIGT. There would not be as much cotton gambled in, but there would be just as much cotton for sale if you cut out this gambling as there is now?

Mr. CALVIN. There is another point about that. In the fall of the year when cotton is accumulating, farmers sell their cotton in about three months. The middleman is buying this cotton from the farmer and piling it up, and the bank is financing the business. He is going to buy the entire crop in three or four months. Every time he buys a hundred bales he sells a hundred bales against that. Will you tell me who would buy that hundred bales? The spinners are buying from month to month—they hedge, too—the middleman is buying all the crop in three or four months, and every time he buys he sells a hedge against it. Here is the middleman [illustrating] that is piling up the spot cotton, who will sell these hedges in three or four months.

Do you know that would be the worst thing, my brother, that would happen to the farmers of this country? Do you know that the prohibiting of those hedges against that crop would absolutely demoralize and destroy the market? Why? Because there would not be anybody to buy the hedges when offered for sale. You can not imagine a condition like that.

Mr. VOIGT. Suppose you are a farmer and have raised 100 bales of cotton. You sell a three months' hedge against that cotton. You say there may be a spinner who wants that cotton nine months hence?

Mr. CALVIN. Yes, sir.

Mr. VOIGT. Why can not the man who has bought that three months' hedge, resell that hedge to the spinner on nine months' time?

Mr. CALVIN. That would be a question of getting out and hunting up men.

Mr. VOIGT. If these men congregate on the exchange there would not be any difficulty in hunting up men who have got cotton?

Mr. CALVIN. Very few men congregate on the spot exchanges, and then they are there usually for spot purposes; they are not there to make hedging transactions.

Mr. RIDDICK. Would it not bring them?

Mr. CALVIN. We do not want the spot exchange so far away from the farmers. We want our spot exchanges at home.

Mr. VOIGT. The man who is dealing in spot cotton has got a representative on the exchange, has he not?

Mr. CALVIN. No, sir; not always.

Mr. VOIGT. Not always, but he has.

Mr. CALVIN. He merely wires in an order to a commission house to sell or buy for him.

Mr. VOIGT. If he is not there, he has an agent there, and that is the same thing.

Mr. CALVIN. Of course, there are agents in these exchanges who represent the public, who receive these orders from all over the country. You may wire one to-day to sell, and you may wire another to-morrow to sell. It is just a matter of choice. Some would patronize the same agents all the time.

Mr. VOIGT. You are not in favor of any legislation that would disturb the present conditions?

Mr. CALVIN. I am in sympathy with the Lever law governing futures until we have time to try it out. There have been interruptions, and we want to see whether it will function properly, and then if it does not I will be frank with you, and I will try to come back sometime and tell you wherein the Smith-Lever law can be amended, if I can. But I grant you it is a very difficult problem.

Mr. MCLAUGHLIN of Nebraska. You said at the beginning that you represented a certain number of farmers who asked you to come here and appear before this committee, not officially. About how many of these farmers were there.

Mr. CALVIN. I said, I am partly here on my own hook. I am a cotton grower myself. There were about a dozen of us. And at the same time I want to say that I am a member of the recognized board of the Farmers' Union, and have been accustomed to speak for farmers on various questions for a number of years.

Mr. MCLAUGHLIN, of Nebraska. You are not speaking here for the Farmers' Union?

Mr. CALVIN. Oh, no.

Mr. MCLAUGHLIN, of Nebraska. The Farmers' Union in your State has not taken any action in regard to these bills pending before us?

Mr. CALVIN. I am positive they have not taken any action on any of these bills. I do not know what their action will be when they take it, but I want to say this, gentlemen: During these hearings I have heard you honorable gentlemen call upon these men here to point out just how this can be done. I believe you all have realized for years that this is a very intricate question, a very difficult question to understand, and I do not believe you will find any more farmers that understand this question than you will Congressmen who understand it.

You will pardon that little levity. It is not a question they have given a great deal of study to, it being an intricate trade question, and it is just simply something that the average man does not get ahold of until he concentrates on it and sits down and thinks about it.

Mr. TINCHER. You have been here for several days attending hearings?

Mr. GALVIN. I came here day before yesterday.

Mr. TINCHER. Will you do me the honor by taking my bill that is pending before the committee and read it, and if you have any suggestions to make pertaining to the bill write me concerning it. I would not want to keep you here now.

Mr. CALVIN. I will be delighted to do it. But I will say in the beginning that I do not want the cotton bill——

Mr. TINCHER (interposing). I would like the bill read thoroughly before you give me your opinion.

Mr. CALVIN. I am not commenting on the grain exchange proposition. I am just pleading for the law on the statute books, that it may remain there until we have an opportunity to try it out.

Mr. HUTCHINSON. Mr. Riddick made the statement awhile ago that wheat was about one-half the price now that it was at the time of the war.

Mr. RIDDICK. I did not make the statement exactly that way. I said that the wheat price was about half the war price, and that the price of flour did not drop correspondingly.

Mr. HUTCHINSON. The price of wheat was fixed at $2.26 during the war?

Mr. CALVIN. Yes, sir; I was here when it was done.

Mr. HUTCHINSON. Mr. Tincher says it was worth $1.82 yesterday.

Mr. CALVIN. Yes, sir.

Mr. RIDDICK. It has been going up the last two days.

Mr. HUTCHINSON. No; it has not.

Mr. RIDDICK. Oh, yes; it has.

Mr. HUTCHINSON. After the Grain Corporation decided to quit, wheat went up to $2.75, after the exchanges were functioning?

Mr. CALVIN. I do not know; I have not kept up with the price.

Mr. HUTCHINSON. At that time flour sold at about $14 a barrel; to-day, with wheat at $1.82, flour is selling at $8.50 or $9 a barrel. So you see the price of wheat is dropping from $2.26 to $1.82 only cost 24 cents less, and still flour has gone down about $4 or $5 a barrel. Mr. Riddick makes the statement that flour has not gone down.

Mr. CALVIN. I will be able to convince him that he is in error about the spread during the war, because if I can not show you the spread is 100 per cent more then I will eat all the bread. I believe it will go 200 per cent between the producer and the consumer. It is true of every commodity.

Mr. HUTCHINSON. There is another thing I want to ask you about. Why is this cash wheat in Chicago $1.82 and the option $1.73¾? Can you explain why the spread was that way—the one being March wheat and the other cash wheat?

Mr. CALVIN. Of course, as I stated at the beginning, I was not familiar with the grain end of the business.

Mr. HUTCHINSON. You do know something about the cotton business, do you not?

Mr. CALVIN. Yes; I think I do.

Mr. HUTCHINSON. Can you tell me when the cotton that is raised this year will be used, when it goes to the consumer—how long it takes to accomplish that result?

Mr. CALVIN. Cotton raised this year—it takes about from three to six months to a year. You mean from the time it is manufactured?

Mr. HUTCHINSON. Before it gets to the consumer.

Mr. CALVIN. I suppose three months would be the shortest time, and from that to a year.

Mr. HUTCHINSON. The manufacturer sells how long ahead?

Mr. CALVIN. I have understood some sell six or eight or nine months or even a year ahead.

Mr. HUTCHINSON. Most of them sell a year ahead?

Mr. CALVIN. Yes, sir.

Mr. HUTCHINSON. In other words, they put their salesmen out to sell a certain amount of manufactured goods, and they have got to be protected?

Mr. CALVIN. Yes, sir.

Mr. HUTCHINSON. If they did not, they would soon have to quit business?

Mr. CALVIN. Yes, sir.

Mr. HUTCHINSON. In other words, cotton cloths are sold now for delivery next spring?

Mr. CALVIN. Yes; and I will say that the fact—the only reason in the world I am defending the law on the statute books at the present time is the fact that he is able to hedge and to buy ahead, as he states—the fact that he is able to reflect a price back to the producer on the narrowest possible margin of spread, by reason of the fact that he is able to hedge, don't you see? If he had to take the risk, if he had to sell goods a year ahead, not yet manufactured, he would become the rankest kind of a speculator himself, and his business would become very unstable, and as a result of the fact that he would have to carry the entire risk he would have some way to try to cover that risk in the spread.

Mr. HUTCHINSON. I bought a lot of Manitoba wheat at $2.39, delivered at Trenton. I did not hedge. I can buy the same wheat now at $1.87. Would I have been speculator if I had hedged?

Mr. TINCHER. You are a miller?

Mr. HUTCHINSON. Yes.

Mr. TINCHER. You are not going to take any loss on the wheat; you are going to manufacture and sell the flour?

Mr. HUTCHINSON. Yes.

Mr. CALVIN. Men do not feel like they can afford to speculate and make business unsafe, and so a man who does not hedge goes broke sooner or later. I am telling you it is the history of the cotton trade that every man who had engaged in that business in the South who carries his cotton in the open market sooner or later has gone broke.

Mr. TINCHER. What is the price of flour to-day, Mr. Hutchinson, at your mill?

Mr. HUTCHINSON. $8.50 to $9, and I can not make it out of $2.39 wheat and sell the flour at $8.50 or $9.

Mr. TINCHER. In making $9 flour from the wheat at $2.35 you would lose how much?

Mr. HUTCHINSON. It would lose me quite a good deal. I have not figured it out. I do not want to.

I want to ask you another question, Mr. Calvin: You were referring to a table. I have a little truck farm in New Jersey—that is what Mr. Tincher would call it—and I last year commenced to dig potatoes and I sold them at $7.50 a barrel when I started, right out of the field, but I sold the last of them as low as $1 a barrel, and they are now worth $1.75 to $2. There is no exchange on potatoes. Can you explain why the price went down?

Mr. CALVIN. No, sir; I can not.

Mr. HUTCHINSON. Why not?

Mr. CALVIN. It is just simply in that case a matter of the law of supply and demand. The same thing applied to rice. We are rice growers as well as cotton growers. Around Houston is one of the biggest rice districts in the country. Do you know that rice has gone off 150 per cent in price, much more than wheat. But you can not sell rice at all; it is not dealt in on the exchange. You can stand here and name other commodities a half hour.

Talking about great fluctuations, while, mark you, the fluctuation in cotton is from day to day, up and down, but in normal times around a certain common point, one way or the other, yet the violent fluctuations occur in products where there are no exchanges, which are not dealt in on exchanges. That does not apply to war times, because everything fluctuated during the war times, and cotton did also. But in normal times cotton generally goes up and down gradually from day to day, but a variation in price from 10 points, or something like that, is about the limit. But we see potatoes fall off 100 per cent in one day sometimes. We see beans and various other vegetables. I saw cabbage fall off from $60 a ton in southwest Texas in less than three days, until farmers dumped them in the road and could not afford to haul them to the market.

Mr. HUTCHINSON. Our March wheat brought $1.73¾, while cash wheat is $1.82. It is very evident that the speculators who have been buying this wheat thought wheat was going lower?

Mr. CALVIN. Evidently.

Mr. HUTCHINSON. If he had thought it would be higher he would have been buying more and bidding it up to cash wheat?

Mr. CALVIN. Yes.

Mr. TINCHER. Will the gentleman claim that that is due to the law of supply and demand?

Mr. HUTCHINSON. Absolutely.

Mr. TINCHER. We are going to produce wheat between now and March.

Mr. HUTCHINSON. I am a miller, and when we were paying $2.50 for wheat hundreds of farmers called us up every day and said they would not take less than $3 or $3.50, and they have got the wheat now.

Mr. TINCHER. I want to be in the record as stating that the visible supply of wheat will not justify any such assumption as that, and that the only possible excuse for holding down future options is an attempt on the part of the Chicago wheat gamblers to hold the price down on wheat in the hands of the farmers.

Mr. CALVIN. Let us get this one principle in our minds which has been mentioned here a good many times——

The CHAIRMAN (interposing). Is not the situation this: At present there is an urgent demand for immediate delivery of wheat?

Mr. CALVIN. Yes.

The CHAIRMAN. Which accounts for the spread, and anybody who buys May wheat takes the chances on the market?

Mr. CALVIN. To illustrate this very point which you are making: In Houston and Galveston, Tex., here is a man who has contracted for 20,000 bales of space in a steamship. The steamship is due next week. He has not got a bale of that cotton on hand. He goes out there and he pays any price to get that cotton to assemble it. That

may make the market look out of joint. You will see spots go i Houston a good many points above futures, but that is nothing to g by. Sometimes there is immediate demand for shipment of spo stuff, and they will go out and pay anything for it in order to fil the space.

The CHAIRMAN. Then frequently the spot price is above the futur price?

Mr. CALVIN. Frequently.

The CHAIRMAN. But generally the carrying charges are include in the future, as stated by Mr. Hutchinson.

Mr. TINCHER. That is not true——

The CHAIRMAN (interposing). It is true to-day. Cash wheat i above future.

Mr. TINCHER. Certainly, and practically is always. I will ven ture this assertion, that in 20 years, except during the war period there have not been 30 days but what that condition prevailed.

The CHAIRMAN. Anybody having wheat yesterday could sell hi wheat for $1.82?

Mr. CALVIN. Yes, sir.

The CHAIRMAN. And could buy wheat for May delivery at $1.67 that is, if the farmer had the wheat in the bin he could unload i yesterday at $1.82 and buy back May at $1.67.

Mr. CALVIN. I do not see that that is any advantage to the farmer

Mr. TINCHER. That is done to keep the farmer's product down t $1.82, or just as low as possible.

Mr. CALVIN. We say that, but what force is doing it? Just pu your finger on the man who says he wants the farmer's wheat to g down. The little gambler does not care anything about whethe it goes up or down; all he wants to do is to speculate on the market

The CHAIRMAN. According to the testimony given before thi committee, quite a good many of them are inclined to speculate?

Mr. CALVIN. There has been a good deal said about short selling Let us get this in our minds—that every time a man sells a hundre bales of cotton or a thousand bushels of wheat somebody buys it It is never sold without being bought. If selling is bearish ther buying is bullish; the one offsets the other. Temporarily it may b upset. Some man with too much money may influence the marke one way or the other. He may decide he is going to put it up to high, and then the other fellow is laying for him, as we say dow South, and "will get his goat."

The CHAIRMAN. Have you almost finished? It is now half past 12

Mr. HUTCHINSON. I might ask Mr. Calvin one more question For instance, I can buy a hundred bales of cotton from you to b delivered in May?

Mr. CALVIN. Yes.

Mr. HUTCHINSON. If I do not make up my mind to sell tha cotton you have got to deliver it if I buy through you.

Mr. CALVIN. I did not get the question.

Mr. HUTCHINSON. If I buy a hundred bales of cotton from you to be delivered in May, and I do not make up my mind to sell that you have got to deliver it?

Mr. CALVIN. Absolutely. There is another point: Some peopl say that you can not enforce delivery. If I buy a hundred bales o cotton from you for delivery in May, July, or October, if I wan

cotton all I do is to sit on my contract until it matures, and you may not have that cotton; somebody else may have it, but, mark you, I get the cotton on the contract I made with you, not somebody else.

Mr. EVANS. Suppose you can not get the cotton; how are you going to force delivery?

Mr. CALVIN. That would be a question to be settled in court.

Mr. EVANS. Then, you would pay him on his contract, just like you do when gambling?

Mr. CALVIN. No, sir. The last holder of that contract has got to furnish that cotton if I demand it.

Mr. EVANS. But you can not if he has not got the cotton. Then what are you going to do?

Mr. CALVIN. We can not conceive of a condition where they could not get it at all.

Mr. EVANS. They have found just that condition in the past.

Mr. CALVIN. It has never occurred in my life when a man could not get the cotton at all.

Mr. TINCHER. Are you giving a legal opinion or a practical opinion?

Mr. CALVIN. A practical opinion. That is how it is carried on.

Mr. HUTCHINSON. If he did not deliver it he would have to get out of the exchange?

Mr. CALVIN. Yes, sir.

Mr. EVANS. Frequently they do not deliver and do not get out of the exchange.

Mr. CALVIN. They have to settle that among themselves. You probably would not want me to deliver. You would probably want to buy cotton elsewhere.

Mr. EVANS. Is it not a fact that speculators only make money when there is a fluctuation in prices? If the price stayed perfectly level, speculators could not exist?

Mr. CALVIN. Sure.

Mr. EVANS. And, therefore, it is to their interest to make fluctuations?

Mr. CALVIN. Yes; but the fluctuations are less violent owing to their stabilizing influence.

The CHAIRMAN. Without objections, the committee will now stand adjourned until to-morrow morning at 10 o'clock.

(Thereupon, at 12.30 o'clock p. m., the committee adjourned to meet to-morrow, Saturday, January 8, 1921, at 10 o'clock a. m.)

34574—21——11

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C. Saturday, January 8, 1921.

The committee met at 10 o'clock a. m. pursuant to adjournment on yesterday, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. Is Mr. Marsh in the room? [A pause without response.] Is Mr. Jackson here?

Mr. JACKSON. Yes, sir.

The CHAIRMAN. The committee will be pleased to hear you.

SATEMENT OF MR. L. B. JACKSON, DIRECTOR STATE BUREAU OF MARKETS, DEPARTMENT OF AGRICULTURE, STATE OF GEORGIA, ATLANTA, GA.

The CHAIRMAN. You will please give your name, whom you represent, and your place of residence, so that the reporter may put it in the record.

Mr. JACKSON. My name is L. B. Jackson; I am director of the State Bureau of Markets, Department of Agriculture, State of Georgia; my headquarters are at Atlanta.

Mr. Chairman and gentlemen of the committee, inasmuch as there is likely to be some controversy in my State as to the remarks I make here, I have reduced them to writing and will read them to the committee. My statement is very brief.

Representing the Georgia Department of Agriculture I state that speculative short selling on the exchanges is a curse to agriculture.

By speculative short selling I mean the act of a speculator selling a commodity on the board that he does not own or possess and which does not exist. It is a natural act for one to buy that which they do not have, but it is an unnatural act for one to sell that which they do not possess. It is unfair to permit the real owner of a product to have to compete in selling with a group of men who do not own no produce. I urge legislation that prohibits speculative short selling.

This legislation should compel the seller of a future contract to file with the exchange handling the trade an affidavit showing that the seller is the owner of the commodity sold and also showing where it is stored. There should be a stiff penalty for false swearing and the agents of the Secretary of Agriculture should verify the affidavits by inspection of the books of the seller.

The foregoing suggestion is not a theory. It is already a proven successful remedy. During the war a speculative bear raid was

made on cotton and the Chief of the Federal Bureau of Markets, Mr. Chas. J. Brand, who was also chairman of the cotton committee of the War Industries Board, was urged to issue an order stopping speculative short selling. He did so and the bear raid was stopped. This was done under authority of a war measure. The records of the Federal Bureau of Markets will show that the remedy was successful and that the legitimate hedging on the exchange was not impaired.

The exchanges will tell you that if you prohibit speculative short selling you will cut down their business to where it will not be profitable for them to operate and that they will close and that then there will be no place for a legitimate hedge. My answer to that is that I do not believe they will close, and if they do, so much the better. Then create by legislation a Federal exchange where legitimate trades can be executed.

The CHAIRMAN. Do you represent any other organization?

Mr. JACKSON. No, sir; I am a State official, and draw my salary from the State of Georgia, and have no other interest in this matter than the welfare of the people.

Mr. MCKINLEY. I think you have made some very good suggestions; won't you go on and carry out your idea about a Federal exchange, giving more details?

Mr. JACKSON. The statement that I concluded with?

Mr. MCKINLEY. Yes.

Mr. JACKSON. I say if the exchanges as at present organized can not prosper without speculative short sales then the Congress should establish an exchange, under the Bureau of Markets, Federal Department of Agriculture, wherein trade can be dealt in in a proper way but stop this speculative short selling. The details of such a plan I have not worked out.

Mr. TINCHER. It probably would not be necessary to establish such an exchange because our experience during the war has taught us that we may have a legitimate exchange without the speculative short selling and gambling in futures. That was prohibited during the war.

Mr. JACKSON. I say here that when the order was put into effect stopping short selling the exchanges continued. They said they were not thriving; nevertheless, they continued to do business. Therefore I do not believe they would close if we forbid this speculative short selling.

Mr. TINCHER. The grain exchanges did not stop during the war at all.

Mr. JACKSON. No, sir. This refers to cotton exchanges, but my remarks refer not only to cotton, but to wheat, corn and other farm products.

Mr. HULINGS. You do think that speculative short selling is injurious to the producer?

Mr. JACKSON. Yes, sir; speculative short selling is certainly injurious to the producer and to the consumer as well, I think.

Mr. HULINGS. How would it be if somebody does not buy? Isn't long buying of advantage to the producer?

Mr. JACKSON. What I referred to is the selling of something that does not exist, and I maintain that that is fundamentally wrong.

Mr. HULINGS. Where do you draw the line? If I expect to get a team of horses from you but you are not ready to deliver them yet, can not I sell that team of horses to my friend Tincher here?

Mr. JACKSON. Clearly so, and under my statement here.

Mr. HULINGS. No; I have not yet got that team of horses.

Mr. JACKSON. You ought to have it.

Mr. HULINGS. I am selling it.

Mr. JACKSON. You are selling something that you have not got. That is what I am objecting to.

Mr. HULINGS. But I am depending upon my contract with you for you to deliver the team of horses to me as per contract.

Mr. JACKSON. I think that is one of the bad practices of the exchanges as they exist to-day.

Mr. HULINGS. Isn't it true that in all trades and in all businesses that same thing is done?

Mr. JACKSON. Not that I know of.

Mr. HULINGS. Do you think there is anything wrong if I make a contract with you to pay you $250 for a team of horses, and before I have received the team of horses I sell them for $300?

Mr. JACKSON. That is not a fair or parallel case. That is in a different line of business from this future trading. Gambling does not enter into the kind of transaction you are talking about. Here gambling enters into the whole thing, and that is the trouble to-day.

Mr. HULINGS. But I am talking about buying something that a man has not yet to sell, but that he contracts to deliver to me in the future.

Mr. JACKSON. Yes, sir; but that is a case that does not come under this gambling and speculative short selling business that we are talking about on the exchanges.

Mr. HULINGS. It is a short sale.

Mr. JACKSON. But not of the kind that I am referring to.

Mr. VOIGT. In the case you put to the witness the other gentleman has the horse.

Mr. HULINGS. But I have not got him yet.

Mr. VOIGT. But he has agreed to deliver the team of horses to you and in that case you can sell the horses.

Mr. HULINGS. It is a short sale.

Mr. JACKSON. But in the case of cotton 300,000,000 bales are sold while only a comparatively small proportion of that number actually exists. We must know that that is fundamentally wrong.

Mr. TINCHER. As a further illustration of the soundness of your remarks, Mr. Jackson, I want to call attention at this time, for the benefit of the record, to the fact that I see wheat sold on yesterday in Chicago at $1.85½; that March option closed in Chicago at $1.71½ cash wheat having gone up and option wheat having gone down and that the May option, at a time when there will not be any wheat thrashed, between now and then, wheat closed at $1.64, having gone down from $1.66 to $1.64.

Mr. JACKSON. Exactly.

Mr. TINCHER. Could there be anything more patent than the market having been sold down by the gambling process?

Mr. JACKSON. Absolutely.

Mr. MCKINLEY. What is there to prevent a man from buying that wheat from Argentina.

Mr. TINCHER. Because of the proposed tariff. If he does he will have to pay for it. We now have more arguments in support of the emergency tariff law than we ever had before.

Mr. JACKSON. I have no other interest in this matter than my official duty, but there is nothing clearer to me than that it is the paramount duty of the Congress to stop speculative short selling.

Mr. MCKINLEY. This development by the Bureau of Markets, Department of Agriculture, is going to help.

Mr. JACKSON. The Federal Bureau and the State Bureau of Markets in Georgia are cooperating closely together, and we all want to see that work developed.

Mr. MCKINLEY. That really is going to be of great help.

Mr. JACKSON. It is helping, but will not reach this trouble.

Mr. MCKINLEY. But it will help.

Mr. JACKSON. Not without legislation. It will not reach this trouble we are talking about without further legislation.

Mr. MCKINLEY. Would it put the exchanges out of business if we could give the farmer a direct market?

Mr. JACKSON. No, sir; we permit here a thing to go on that is improper and injurious. If there are a dozen men here who have raised wheat, and have done it with their toil, or invested their money in it, how unfair it is to put those dozen men in competition with a thousand men who have not raised a bushel of wheat. The producer is in competition with men who never raise any wheat, do not own any wheat, but who simply gamble on the misfortunes of others.

The CHAIRMAN. Referring to the matter of regulations, do you have a limit of a certain number of bales to each operator?

Mr. JACKSON. During the war, do you mean?

The CHAIRMAN. Yes.

Mr. JACKSON. That committee issued an absolute order stopping speculative short selling. No man could make a future sale without filing with the secretary of the board an affidavit showing that he was the absolute owner of the property sought to be sold.

The CHAIRMAN. It also limited the number of bales dealt in.

Mr. JACKSON. I could not say as to that. It prohibited him from selling anything he did not own. As to the other, I do not know about that because I do not recall anything of the kind, but as to this I was here at the time and participated in it.

Mr. HULINGS. Six years ago I introduced a bill in the Congress which provided that when a man sold anything, or agreed to sell anything, he had to make a contract designating what it was, giving the number of the certificate if it was a warehouse certificate, or the grade certificate had to be shown, and that he had to deliver that stuff at the end.

Mr. JACKSON. Did your bill have reference to the futures act?

Mr. HULINGS. Yes.

Mr. JACKSON. Well, that is the same line that has been up in some other bills since, and I think the House passed it but I am not sure; but that does not affect just the thing we are after here.

Mr. HULINGS. That would prevent selling wind and buying wind, wouldn't it?

Mr. JACKSON. If the seller had to state where the stuff was and the grade, it would. That is just another way of doing it.

Mr. RAINEY. What would prevent the passing of one certificate of evidence from one party to another? In other words, if Mr. Hulings sold to me I would have the certificate of ownership, and I could pass it on to somebody else.

Mr. HULING. In that case you would have to make another contract of your own, and unless you had the stuff you could not make a contract.

Mr. RAINEY. But if I had a certificate of ownership I would have the stuff.

Mr. HULINGS. I would sell the stuff to you but you have not got it, and you cannot sell it because you have not got it.

Mr. VOIGT. You can under the Tincher bill.

Mr. RAINEY. Suppose I get a certificate of ownership and I pass it on to another man?

Mr. HULINGS. You would have to make a contract with the other man and put a revenue stamp on it.

Mr. JACKSON. You understand that the title, under my contention, must be in the party dealing. The title can not be in two owners at one and the same time.

Mr. VOIGT. The thing that is suggested now and that is bothering me about this bill, is this: Say you have 100 bales of cotton, and you sell those 100 bales of cotton to Mr. Hulings, and he gets the contract from you, and he sells 100 bales of cotton to Mr. Tincher, and he gets the contract, and Mr. Tincher sells them to Mr. Rainey.

Mr. JACKSON. It is all based upon the cotton.

Mr. VOIGT. The object of Mr. Rainey in asking you the question he did was to determine whether or not there could not be a great deal of manipulation even in the contract representing real cotton.

Mr. JACKSON. There is more or less elasticity in there, and that could be prevented by limiting the amount of sales in the trade, as was done under the Food Administration. That is another feature, but that can be remedied.

Mr. TINCHER. But it is not an evil to be compared with the existing evil.

Mr. JACKSON. No, sir.

Mr. VOIGT. The question is whether the Congress should pass a law limiting the number of times an article can change hands.

Mr. JACKSON. I am not advocating that.

Mr. TINCHER. The reason I did not fix my bill that way. I was afraid the Congress could not do that.

Mr. VOIGT. Under your bill where a contract is based on an actual commodity that contract may be turned over a number of times.

Mr. TINCHER. Yes.

Mr. VOIGT. And the result of it will be to permit a great many dealings in a commodity.

Mr. TINCHER. Yes, sir; and I will add that I think the bill is far from perfect, but under existing conditions you can not hope to stop everything at the start.

Mr. VOIGT. Mr. Jackson, who was it that took that action during the war?

Mr. JACKSON. Mr. Charles J. Brand. He was then Chief of the Federal Bureau of Markets, and also chairman of the cotton committee of the War Industries Board. He did it under and by virtue of the authority of the war measures.

Mr. VOIGT. I wonder if you could furnish us with a copy of those orders.

Mr. JACKSON. Mr. Meadows is here, and I suppose he can supply it.

The CHAIRMAN. They are undoubtedly in the files of the Department of Agriculture.

Mr. MEADOWS. Yes, sir; and it was published at the time.

The CHAIRMAN. Did it state the number of bales to which an operator was limited?

Mr. JACKSON. No, sir. It placed no limit on the number of bales of cotton that might be dealt in, but simply stopped speculative short selling.

The CHAIRMAN. Was there an order limiting the number of bales of cotton or bushels of grain that might be dealt in?

Mr. JACKSON. I do not know. I was not in the department at the time.

The CHAIRMAN. I have reference to the food control.

Mr. JACKSON. There is no such regulation now. I know that.

The CHAIRMAN. Wouldn't the affidavit make it inoperative?

Mr. JACKSON. No, sir.

The CHAIRMAN. Would not the department of agriculture of Georgia exacting an affidavit stop it?

Mr. JACKSON. No, sir. For instance, say a large cotton merchant in Georgia wants to buy to-day 2,000 bales of spot cotton through his agents all over Georgia. We have no desire to so fix it that a legitimate cotton merchant can not sell those 2,000 bales he has actually bought. All he does is to make affidavit, and his broker on the exchange——

The CHAIRMAN (interposing). It would not have to be forwarded to New York?

Mr. JACKSON. No, sir; his representative on the exchange vouches for that affidavit, and the affidavit is open to the inspection of the agents of the Secretary of Agriculture—and he has many of them in the country—and that whole matter would be very easily ascertained, whether there was any fraud.

The CHAIRMAN. So that a commission man in New York, if he had an agent in Georgia, would act on an affidavit filed in Georgia.

Mr. JACKSON. Yes, sir. Or, even whether he had a branch office in Georgia or not, put a stiff penalty in there for false swearing and it would cover it.

The CHAIRMAN. He would have to make an affidavit about it?

Mr. JACKSON. Yes, sir. The penalty, after all, would be against the man who sold the contract short, rather than against the broker.

The CHAIRMAN. What is your idea about limiting the operations of a man or the quantity that might be dealt in?

Mr. JACKSON. I would not venture an assertion about that. That is a new thought. I would rather think about it before expressing myself upon it. I plant myself upon the ground that I am against the man selling something he does not own and that does not exist. I say it is unfair to the real owner of merchandise.

The CHAIRMAN. My understanding was that the limit put on such transactions during the war was satisfactory.

Mr. JACKSON. I do not know about that. I understand that there was a limit, but I thought it was as to how much the market could fluctuate.

The CHAIRMAN. I meant about the quantity traded in.

Mr. JACKSON. I do not know about that.

The CHAIRMAN. Anything more?

Mr. JACKSON. No: I believe not. I thank you gentlemen for this opportunity to be heard.

The CHAIRMAN. The committee is very grateful to you.

(Mr. Jackson subsequently submitted certain additional matter for insertion in the record, which, by direction of the chairman, is here printed in full, as follows:)

BRAND'S REASONS FOR PROHIBITION OF SPECULATIVE SHORT SELLING ON COTTON EXCHANGES.

The committee on cotton distribution this morning, in a telegram directed to the presidents of the New York and the New Orleans cotton future exchanges, prohibited speculative short selling of cotton in those markets. Asked as to the reason for this prohibition, Charles J. Brand, chairman of the committee, said:

"The signing of the armistice brings us suddenly to the threshold of the reconstruction era. Pending developments are of the utmost importance to the entire cotton world.

"The consequences of unfounded rumors that tend to promote vicious speculative activity and cause unjustified demoralization must be avoided as far as possible. In order that harmful violent price fluctuations may be checked, the committee on cotton distribution has ordered all speculative short selling on the New York and New Orleans cotton exchanges stopped, and, to make this order thoroughly effective, has required that no selling orders except in liquidation of long contracts be executed from any foreign country.

"The stoppage of sinkings by U boats, the monthly increase in new ship tonnage, and the releasing of ships now engaged in supplying the fleets of the Allies, together with the freeing of space previously used in sending munitions to Europe, will mean a large increase in available tonnage for cotton exports.

"The world's requirements of cotton to meet its increasing demands for clothing will henceforth be on a continuously ascending scale. Based on reports to this committee from the various foreign countries, we estimate their requirements and probable imports of cotton under present conditions to be over two million bales in excess of last season's takings.

"Europe is almost denuded of cotton and cotton goods. The potential buying power of the world which will be aided and hastened by the establishment of the necessary credits will quickly assert itself."

NOTE.—For your convenience the text of the telegram referred to is quoted below:

"Please read from the rostrum of your exchange before the opening Wednesday morning, post on the bulletin board, and send immediately to each member firm carrying contracts, the following notice. In order to curb undue speculative activity it becomes necessary at this time to prohibit further speculative short selling on the New York and New Orleans cotton exchanges, and the members of these exchanges are hereby notified that all further speculative short sales are prohibited. Hedge sales may be made on condition that an affidavit from the seller will follow that the sale is a bona fide hedge sale against the purchase of cotton. No selling orders from foreign countries except in liquidation of long contracts are to be executed."

STATEMENT OF HON. HOMER HOCH, A REPRESENTATIVE IN THE CONGRESS FROM THE STATE OF KANSAS.

The CHAIRMAN. Mr. Hoch, the committee will be very glad to hear you.

Mr. HOCH. I am glad to follow the gentleman who just made a statement, as it seems to me he has struck at the very heart of the philosophy of this situation at least. And his statement is directly along the line that I have attempted to follow in my bill, which is one of the bills before you—H. R. 15122.

I am not a grain man, and am not familiar with the technical side of the grain business, but I have given some study to what I call the philosophy of this situation. I introduced a bill upon this subject, not only following out my own idea about it, but in harmony with what has been the overwhelming sentiment of the people of my State for many years with reference to pure speculation in grain.

Now, gentlemen of the committee, what is a grain exchange? A grain exchange, as I understand will be agreed by everyone, is a meeting place for the producer and the consumer. It is a place where the needs of the consumer and the products of the producer may be brought together. That is the only purpose of an exchange. Here, on the one hand, are producers scattered everywhere over the country; and here, on the other hand, are consumers, likewise scattered all over the country, and even to a greater extent than in the case of the producers. Through the agency of the grain exchange they have sought to meet their mutual needs. It seems to me utterly illogical that into that situation, where producer and consumer are seeking to get together, should come men who have no color of right whatever in the commodity, who represent in no way the men who produce the commodity, and who do not represent those who are to consume the commodity, but they proceed to step into that mutual meeting place of producer and consumer, and to offer to sell the commodity, which they neither produce, nor ever have in their possession, nor have any contract whatever for. That is an utterly illogical situation. No one is here, I think, attempting to prevent a sale for future delivery on the part of a man who either owns a commodity or has a legal contract entitling him to the future possession of a commodity.

We have heard here a great deal about gambling, about speculation. What is speculation? It has often been suggested here that the man who plants the crop is a speculator. Certainly he is; in the sense that every man is taking a chance in reference to what the future will bring forth every producer is a speculator. But it certainly requires no argument to see the plain distinction between any man who owns a commodity, even though he must of necessity depend for its sale upon a future market. But to compare his situation with the situation of a man who has not the original ownership, or even any ownership whatever in a commodity and simply bets upon what the future market will be, is wholly beyond the point.

Gentlemen of the committee, I am a little old fashioned with reference to these matters. It has been stated here that while this may be a gamble it is a part of the institution that has grown up, and that it must be allowed to continue, be perpetuated, because to disturb it would smash the machine, an institution which is of many years' growth. On that point I will take my stand upon the old-fashioned philosophy that a thing which is morally wrong can not be an economic necessity. I stand upon that as the starting place in this proposition. It seems to me the only contention is with reference to hedging, which is always brought into the discussion.

I have been reading your hearings, held back as long ago as 1892, and held by other congressional committees, and the contention seems to have been made that hedging is a necessary and cheap form of insurance, and that an effective hedging system is not possible

without the presence of the pure speculator to make the hedge possible. As it seems to me that is the hear of the defense. I want to say that I do not think there is any bill before you that attempts to prevent legitimate hedging. Men have appeared before you and stated that in their opinion hedging is not necessary; but assuming that it is necessary, and I do assume that it is necessary, the question arises whether it is necessary to permit a man, as the gentleman who preceded me has stated, to come in and sell short, to sell a product which he does not own and which he never expects to own and for which he has no contract for ownership.

Gen. Hulings suggested that he might sell a team of horses to me expecting to buy that team of horses from another man. I say that he would have the right to sell that team of horses, provided only he had a bona fide contract with the present owner of the horses, which contract fixes the price and entitles him to the future possession of them. That is a plain distinction between the hypothetical case he presented and the situation which confronts this committee. But I would deny that privilege if it became a matter of public policy involving the welfare of the people, as this situation does; if it came to a situation where men did actually engage in the sale of horses for future delivery without having any right of ownership or to the future possession of them, I would object. I would at least require a man to have a bona fide contract with the present owner of those horses, entitling him to the future possession of the horses, before I would permit him to sell them. That is the very heart of this proposition.

How are we going to prevent this speculative short selling? It seems to me that that is the thing that is utterly illogical in the institution. Referring again to the question by Gen. Hulings, I think there is a plain distinction between offering to buy something in the future and offering to sell something which you do not have. I do not think, of course, we can get the buyer. I do not know of any way by which we can get at the buyer who buys with any expectation of really owning. But there is a plan way of getting at the man who seeks to sell a thing when he has no title in it; and if we can eliminate the man who seeks to sell, having no title, I think we will inevitably eliminate the man who buys without any expectation of ownership. Certainly the system—the existence of the exchange, the speculative features of the exchange—could not exist if you eliminate the short selling.

Now, gentlemen of the committee, how is the Congress going to get at it? That is a practical question, and it is to that question I want to address myself for a few moments.

Mr. VOIGT. Suppose here is a man who wants to put up a large building in Washington. He goes to a lumber dealer and submits to that dealer the quantity of lumber he is going to require, say, a million feet. He asks the lumber dealer to give him a price on that number of feet of lumber which he will use, say, between now and August 1. Under your theory this lumber dealer can not sell that lumber; he can not make that man a bid on that lumber, can he?

Mr. HOCH. Oh, I think the lumber dealer, under the case supposed by you, is in contractual relation to the man who owns the lumber.

Mr. VOIGT. No; he might not buy.

Mr. HOCH. Well, he has every reason to think he can and will actually take it. He is in a business situation where he is dealing with the man who actually owns the lumber, and there is a bona fide sale for future delivery of something which he either owns or has a tentative contract for owning.

Mr. VOIGT. No; here is a lumberman, and he is asked to bid today on a million feet of lumber, of various grades, to be used in putting up a building in the city of Washington. This lumberman has not that lumber on hand, but he, as a lumber dealer, knows what the value of that lumber is in the wholesale market.

Mr. HOCH. Yes.

Mr. VOIGT. Now, then, he says: I will furnish you that many feet of lumber, such and such quantities and such and such deliveries, at such and such prices. Of course, if he gets the contract he expects to go out into the markets, and he knows where his connections are, and he expects to go out and buy that lumber. But he has not the title to that lumber, and does not know where the lumber is to come from.

Mr. HOCH. And all he can agree to do is to sell, or agree to sell, that man lumber at a future time.

Mr. VOIGT. And that is a contract for future delivery. I was thinking of that case in connection with what you said to Mr. Hulings. You said if Mr. Hulings agreed to sell me a team of horses which he does not own, that that contract should be made illegal. Where is the difference between that proposition and the lumber proposition I suggest?

Mr. HOCH. No; just a moment. No; I said if it ever came to a question where public policy was involved, I would make it that way. I think your question is purely an academic one. No one is finding any fault with the situation you speak of. There is absolutely in sight the intention to sell lumber for a specific purpose.

Mr. VOIGT. What I am getting at is this: Isn't it always a question of intent?

Mr. HOCH. I think intent is so difficult to get at that I do not see how you can reach it. But I say there is no necessity of permitting in this situation a man to come in who certainly has no intention, as we all know, of actually buying or selling the commodity dealt in, by dealing by way of speculation in futures; I say, I think if we can eliminate him when he has no color of ownership or right to future possession under contract, we can cure the thing which we want to cure.

Mr. HULINGS. You mean to make this distinction: Say you are in the lumber business: you think you would have the right to make a contract for future delivery of lumber because you know where you can get it. But I, who am not in the lumber business, would have no right to make a contract to deliver lumber in the future.

Mr. HOCH. Oh, yes. It is a question of bona fides. It is susceptible of a plain distinction when you come to comprehend the color of business affairs. There you have an academic question that I do not think would be of much value to us here, so far as going further into the details of it. I do not want to take up your time.

Mr. TINCHER. Getting down to the practical side of it, a man here in Washington would not enter into a contract with another man to

sell him a million feet of lumber until he could himself contract and know where he was going to get it, would he?

Mr. HOCH. No; I do not think he would.

Mr. VOIGT. Oh, I do not think that is so. I think many people have gone ahead and made contracts to sell before they had made a purchase.

Mr. HULINGS. I tried in my bill to meet that proposition by legalizing it in the end by actual delivery of the stuff; otherwise it would not be a contract.

Mr. VOIGT. Something might happen to prevent—something that the parties did not have any control over—the carrying out of the contract. I do not think the question I put to you, Mr. Hoch, is an academic one. The question I put to you is supposing a situation that is likely to happen in business every day. I believe it has happened and does happen. I agree with you that gambling should be cut out, but the question that bothers me is, where are you going to draw the line?

Mr. HOCH. Well, I am drawing the line by requiring an absolute showing of contractual ownership in the commodity dealt in.

Mr. VOIGT. Getting back to the same question, if you please, of the lumber dealer here in Washington who bids to-day on the deliverey of a million feet of lumber, which is to be actually used here in the city in putting up a building: Would you permit that lumber dealer to sell that lumber, or to agree to sell the lumber, it representing lumber that he has not ownership of or control over?

Mr. HOCH. I will answer by saying this: If the time ever comes when men who do not own lumber yards and who have no interest whatever in the lumber business, except by way of pure speculation——

Mr. VOIGT (interposing). No, no; let us assume that this man is a lumber dealer.

Mr. HOCH. No; I see no reason why, under present circumstances, it will give any trouble in that matter.

Mr. VOIGT. You would permit him to do that?

Mr. HOCH. I see no reason under present conditions to deny to him the right to make such a transaction.

Mr. VOIGT. Now then, let us apply the same proposition to 100,000 bushels of grain. Here is a grain dealer in Washington, and a man comes to him and says: "I am going to use 100,000 bushels of grain during the next six months. What will you sell that number of bushels to me for?" This man replies: "I will agree to sell you so many bushels May 1 and so many bushels June 1, and so many bushels July 1, at such and such a price." And they then make a contract. This man, who is a grain dealer, has not got the grain. Would you permit him to make that sale?

Mr. HOCH. I would not permit him to make that sale unless he has the ownership of that grain.

Mr. VOIGT. Then you would make a difference between the man who deals in lumber and the man who deals in grain?

Mr. HOCH. If you call that a difference, yes; under the present conditions.

Mr. TINCHER. It would not be you making the difference but a difference that exists now.

Mr. HOCH. Yes, sir. It is an entirely different situation. One is a transaction upon a board, an institution that has grown up, with which we are dealing here. The actual operation of that institution that is under fire, is what we are talking about now.

A question was asked by Mr. Rainey a few moments ago, in effect: What is to prevent the passing on or assigning of the warehouse receipts or some other evidence of ownership of a commodity? I do not know of anything to prevent it. I am not trying here in my bill to prevent it. Whether it ought to be prevented or not I do not know. I am not trying to raise that situation. I am talking solely about the man who does not own such a warehouse receipt, and who has no evidence of title whatever behind him in the commodity in which he is dealing; there is no chain of title at all reaching back to the man who produced the commodity.

While we may not be able to cure all these evils surrounding this situation, yet if we can stop, as I think we ought to stop, the making of a sale by a man who does not own the commodity and has no right to any future possession of the commodity in which he is dealing, we will largely cure this trouble.

Now, gentlemen of the committee, I want to discuss the two plans proposed here for stopping that kind of thing. There are a number of bills before your committee. Mr. Tincher's bill and Mr. Dickinson's bill follow the Dickinson method. I have followed in my bill the interstate commerce method. Both methods have been followed in bills previously reported out of this committee. I may say, though I hardly need to do it, that I have no personal pride whatever in the bills or in the methods that may be adopted. I will give my theory, that of presenting the interstate commerce method of dealing with this proposition. I know of no other powers granted to the Congress under the Constitution whereby it is within our jurisdiction to reach this matter than (1) to tax it out of existence, or (2) to reach it through our power to regulate interstate commerce. There may be other powers, but I have not discovered them, and I find that the committee in years gone by has never discovered them.

Now, then, the Dickinson proposal may be very effective, but it seems to me its weakness is this: That it assumes to come in under the theory of a tax, whereas, as a matter of fact, there is no expectation of a revenue being received, as I understand it. In other words, the tax is supposed to be prohibitive. The purpose of the tax in his bill is to prohibit a certain thing to be done. I am assuming that to be the case, though I may be mistaken.

Mr. TINCHER. We have a good many laws now based on that proposition.

Mr. HOCH. Yes; and I do not say that by way of criticism of the bills at all. Assuming that it is a desirable thing to be done it may be a proper method, but I am simply giving you my view of the two methods. To come here proposing a tax, when, as a matter of fact, you do not expect any revenue therefrom, seems rather illogical to me.

Mr. HULINGS. You do not think the method embodied in the Dickinson bill would prevent larceny?

Mr. HOCH. No; if you are going to prohibit larceny I would reach it in some other way than by a tax. It may be that my premise is wrong, but if the thing desired is a prohibition of these practices,

then it seems to me that if we can find a way under the Constitution by which we can prohibit it, we have taken the direct and logical step toward that result.

Mr. VOIGT. There seems to be only these two methods you have referred to. Isn't the weakness of your proposition to use the interstate commerce power the fact that men can get together within a State and make these contracts and not come under your law at all?

Mr. HOCH. I think that is a theoretical difficulty, that there would be nothing to prevent them from dealing intrastate. But as a practical matter I do not believe speculative trading in futures can exist at all without the use of interstate wires. That is the theory I have. I believe as a practical matter they would be put out of business. In other words, I do not think that speculative dealings in futures could exist in Chicago unless it could have the wire service to present these speculative deals coming from all over the country. I may be wrong about that, but certainly with the slight knowledge I have of the workings of boards of trade, I would not expect a few men to get together, without the United States Mail Service or without the interstate wire service, and conduct the business as at present conducted—speculative dealing in futures.

Mr. TINCHER. I may be wrong about that, but I was afraid a few men would get together in Chicago and do that very thing.

Mr. HOCH. If dealing in futures, speculation, would go on simply within the confines of a State, I will say that my bill will not reach it.

Mr. VOIGT. We have all heard it claimed that men get together in a stock market, and also in a grain market, for the purpose of fictitiously putting the price up or down. Let us assume there is a gang of men on the Chicago Board of Trade, or on the New York Grain Exchange, and that they are secretly in agreement to do a certain thing. Here is a bunch of men, on the one hand, that sells grain and there is a bunch of men, on the other hand, that buys grain——

Mr. HOCH (interposing). May I interrupt you right there by saying that most of those bunches of men to which you refer must represent speculators scattered all over the country.

Mr. VOIGT. No; here is a group of millionaires in Chicago, we will say, who have set out to make some money in the grain market; and one set ostensibly acts as bulls and the other set ostensibly acts as bears, but they are both under one cover without the public knowing it, and all those men reside in the city of Chicago. They have a set of agents or brokers that buy, and another set that sells; and they can be all selling down the market, but they do not lose anything because the money involved goes into a common pot. Those men could do that right in the city of Chicago and they would not be reached by any law enacted under the interstate commerce clause of the Constitution, would they?

Mr. HOCH. That might be true, and if the time came when it did exist, which is not a fact now, we perhaps ought to meet that in some other way.

Mr. TINCHER. Are you sure it does not exist now? I am wondering what put May futures down 3 or 4 cents a bushel while cash wheat went up in Chicago on yesterday. I am wondering if it is not pure speculation, as has been described here, in an effort to pull the farmer's price down.

Mr. HOCH. I think there is no question about it, but you have no way of knowing how far those ramifications went all over the country; and they were in constant communication with people who either wanted to bull or bear the market, people all over the country.

Mr. TINCHER. Our experience with the packers was that they could pull in their horns and do business with awfully short horns if forced to do it.

Mr. HOCH. Well, the criticism of my particular bill is that it might not go far enough, if there is any criticism of it. That may or may not be true.

Now, gentlemen of the committee, the bill I have before you is very brief. Let me read just the heart of this proposition, as I sought to reach it. I want to say at the outset that I assume, of course, that the language contained in my bill is not perfect, and that it may not be, in the judgment of the committee upon examination, of the phraseology that you would wish, even if you should decide to accept what I have attempted to do. Leaving out the first part of the bill, I read:

SEC. 3. That it shall be unlawful for any person to send or cause to be sent by mail, telegraph, telephone, wireless telegraph, or cable from any State or Territory of the United States or the District of Columbia to any person in any other State or Territory of the United States, the District of Columbia, or any foreign country any communication offering for sale or agreeing to make a sale for future delivery, at a price named, any grain or cotton, unless the person sending such communication is—

Now, I provide three excepting clauses—

(a) The owner of the actual physical property so offered for sale, or is the duly authorized agent of such owner—

Of course there could not be any question about subdivision (a)—

(b) Is in legal possession or is the duly authorized agent of a person in legal possession, as owner, lessee, or otherwise, of and upon which the grain or cotton so offered for sale is in actual course of growth.

That of course, was to save the grower of the crop and permit him to make sale for future delivery of his crop not yet in actual existence, but in process of growth. And here is the heart of the contention:

(c) Is legally entitled to the future possession of the grain or cotton so offered for sale, under the terms of a contract previously made by the owner thereof or for such owner by his duly authorized agent.

In other words, under subdivision (c) I would require that before any man could send a communication in interstate commerce offering to make sale for future delivery to show a proven claim of title back to the producer of the commodity.

Mr. HULINGS. Would that catch the man who does not use the telegraph wire but goes on the exchange and does business by word of mouth?

Mr. HOCH. No; that would not reach him, because here we would only reach men coming under the interstate commerce clause of the Constitution.

To follow this up and show what I propose in reference to proof in this connection, let me say: Before I do that, in section 4, I also make it an offense for the telegraph company knowingly to accept

such a contraband message, making knowledge a necessary ingredien of the crime. Then there is this section:

> That in any prosecution for violation of this act, in case any defendan alleges that he is a person excepted under paragraph (*a*), (*b*), or (*c*) of sectio 3, the burden of proof shall be upon such defendant in establishing the trut of such allegation.

In other words, I would throw the burden of proof upon the ma charged with violation of the law, should this become a law, to sho that he did come within one of these excepted clauses. I have don that, obviously, to make it more easy to secure conviction. Then have provided a penalty for each offense.

Gentlemen of the committee, this subject has been before the Con gress for a great many years, and I have observed, in reading th hearings, that practically every one who has come before this com mittee has conceded that the evils exist. I want to say that I a something of a conservative. I would not needlessly throw a monke wrench into the machinery.

Every intelligent man realizes that this system has grown u through the years, and that we ought to proceed cautiously. At th same time I am never intimidated by the man who says: "Yes, ther is an evil, but the system has grown up through so many years w ought not to attempt to disturb it for fear we might smash th whole thing." I do not believe in looking at anything from tha standpoint. Reforms in the railroad business were brought abou over the insistent objections of men who said, for instance: "Yo can not disturb the rebating without smashing the railroad systems. Every reform has been started from without. That is human natur It has taken some fellow, perhaps who is not technically informe who had come from the outside and insisted upon a correction o existing evils. And that is because human nature dictates that whe one is on the inside and involved in the intricacies and complexiti of the business with which he is connected, he is very slow about pe mitting any disturbance for fear that something in the transitio might happen to him.

So, Mr. Chairman and gentlemen of the committee, I say would not stop simply for the possible fear that some damage migh be brought about. It is inconceivable to me that it is not possib to have a proper medium of exchange between producer and co sumer if you reject the pure gambler the man who has no color o right in the commodity and no interest in the commodity in whic he is dealing other than betting upon what the future market going to be.

I say that this committee out to bring out a bill, following son method, which will attempt to reach the evil which practical every one admits exists. I am sure that the members of the con mittee know I am speaking the truth when I say that the ove whelming sentiment of the producers of the country is that th have not gotten a fair deal, and that in the passage of their produc to the consumer there has been manipulation on the part of me who had no legitimate interest in the products manipulated. It h always worked to the detriment of the producer, and generally the detriment of the consumer.

Gentlemen of the committee, I believe that is all I have to sa and I thank you.

The CHAIRMAN. Are there any questions any of the members of the committee wish to ask this witness? Mr. Hock, is not the all-important thing in connection with this whole legislation the guaranteeing to the buyer of the quantity and the quality of the article to be delivered?

Mr. HOCH. That is important.

The CHAIRMAN. The all-important part of the whole legislation is the guaranteeing to the buyer of the quantity and quality of the article to be delivered to him, do you not think, Mr. Hoch?

Mr. HOCH. Well, no; I don't think so. I don't mean to say that the matter of grades is not a tremendously important thing, and that perhaps to limit the grades that are tenderable upon a contract would undoubtedly tend to discourage short selling.

The CHAIRMAN. But if you contract for No. 2 wheat you would object to having delivered to you a No. 5 or no grade wheat? Would you accept a No. 5 or no grade wheat if you had contracted for the delivery of No. 2 wheat?

Mr. HOCH. No.

The CHAIRMAN. Such wheat, if delivered to you, would be of less value than the wheat that you had contracted for. Say there is a difference of 20 cents in the value as between the grade of wheat that you would contract for and the grade of what you would receive; would you accept a grade of wheat of 20 cents less value than the one contracted for?

Mr. HOCH. No.

The CHAIRMAN. Then is that not the important part of the whole legislation, that the quantity and quality of the article to be delivered should be guaranteed to the buyer?

Mr. HOCH. I think that is very important, Mr. Chairman. As I say, I think that the easier it is for the man to make delivery and to evade the actual terms of his contract, the more likely he is to make a contract for future delivery. Now, I don't know the technical side of the grain business, but I certainly would make the tenderable grades so definite and sure as to tend to discourage the pure speculation.

The CHAIRMAN. I do not believe that the quality of grades are provided for. Anything could be delivered under a contract unless provision were made to guarantee the quality.

Mr. HOCH. My bill has nothing to do with the grades tenderable under the contract. I am simply striking at the speculative, short seller.

The CHAIRMAN. Does your bill provide for the hedging?

Mr. HOCH. It does not need to provide for any hedging at all. There is nothing in the bill to prevent hedging.

The CHAIRMAN. The purpose of your bill is to wipe out exchanges entirely?

Mr. HOCH. Not at all.

The CHAIRMAN. If you permit any operation whatever, I take it, the most important part of all of it would be to give a guarantee to the buyers that a certain quantity and a certain quality should be delivered under the contract.

Mr. HOCH. Even though you do that, I don't think that that would necessarily prevent a man from selling something that he does not own.

The CHAIRMAN. Those are two different things. I understand that your bill provides for certain operations on the exchanges.

Mr. HOCH. It does not make any provision at all. It simply prohibits certain operations.

The CHAIRMAN. It permits certain operations. What are they?

Mr. HOCH. It does not go into the question of what is permitted. That is not necessary in the sort of a bill that I contemplate. I simply prohibit a particular thing, that is all. That is all I do, Mr. Chairman, in this bill, prohibit a certain, particular thing. In this bill I prohibit this particular thing: the speculative short selling in grain and cotton, that is all. Anything that a man can do now, that is not prohibited by this bill, he can continue to do, of course.

The CHAIRMAN. What do you mean by "short selling"?

Mr. HOCH. I mean selling a thing for future delivery with no contractual ownership in it, either present or future.

The CHAIRMAN. Then you permit the selling of property actually owned by the seller?

Mr. HOCH. Yes, sir.

The CHAIRMAN. Now, then, do you not think it is well and proper that we should provide that the proper grade, quality and value should be delivered under that contract?

Mr. HOCH. I think that is a very important matter, Mr. Chairman but as I see it, it is entirely distinct from the thing I try to reach in my bill.

The CHAIRMAN. No, but as long as you permit certain things being done, those things should be done properly between the contracting parties.

Mr. HOCH. Yes, certainly; and I think that if there is need for legislation limiting the grades that are tenderable under this contract, this committee should take steps to pass legislation to that effect.

Mr. HULINGS. That is governed now by the rules of the exchanges.

Mr. HOCH. I understand that.

The CHAIRMAN. Mr. Hulings has brought out a point in reference to the exchanges that I wanted to bring out. For instance, at one exchange the difference is 5 cents, and at another exchange 8 cents. Can there be any justice if there is such discrimination, if there are such differences?. Do you think it is just to have, for instance, a difference of 3 cents in these exchanges? And do you think that the difference in price should be left to the seller to determine? Should there not be the actual commercial differences?

Mr. HOCH. I think so, yes.

The CHAIRMAN. Should that not be provided for in any bill providing for legislation on this subject?

Mr. HOCH. Well, it seems to me that they are two entirely different, distinct propositions. I think that ought to be provided for, Mr. Chairman, yes. But I am not here discussing some bill that is aimed at some thing which I am not trying to reach. I am here discussing this bill.

The CHAIRMAN. Yes, but you are dealing with contracts. Now, suppose that you are a feeder in Kansas, and you contract with someone in Minnesota to deliver 100 head of cattle of certain quality and weight. Would you be willing to accept any quantity or any weight?

Mr. HOCH. I certainly would not.

The CHAIRMAN. Now then, would you be willing that the party who is selling the 100 head of cattle to you should be able to fix the differences?

Mr. HOCH. I would not.

The CHAIRMAN. That is exactly what is being done today as to grain—

Mr. HOCH. I don't think there is any disagreement between you and me on that proposition, Mr. Chairman. The question in my mind, however, is whether they are not two separate and distinct propositions. If the two things can be remedied in one piece of legislation, why very well.

The CHAIRMAN. Is that not of as much importance as the other, do you not think?

Mr. HOCH. Well, there are a good many things of importance before this committee for its consideration.

The CHAIRMAN. But here you have contracts between two parties, the buyer and the seller; should not the buyer be protected?

Mr. HOCH. Yes, sir.

The CHAIRMAN. Should the seller be allowed to fix the difference?

Mr. HOCH. Well, now, I agree with you on that proposition, Mr. Chairman, entirely.

Mr. HULINGS. Mr. Chairman, I understand that he would prohibit certain kinds of contracts, leaving on the 'change the permissible contract under the present law.

The CHAIRMAN. But he permits certain contracts. I am speaking of the contracts permitted under this bill, or any other bill.

Mr. HOCH. I do not permit any contract under my bill. My bill is not a permissive bill at all. It is to prohibit certain things from being done. Now, if there needs to be some regulation with reference to things that are permitted to be done, or that are being done, that is an entirely different matter.

Mr. TINCHER. You would not suggest, Congressman, that because he had a bill that prohibits certain things, that he must in that same bill, in order to have worthy legislation, provisions prohibiting all other things that are inequitable and unfair and wrong in the grain business? I have been considering this matter all summer, in my State, and I have introduced a bill, but I don't say anything about grades. Why? Because I haven't heard anything about grades all summer. I am not willing to say that I would not support some legislation remedying the inequities or injustices that are now prevalent.

The CHAIRMAN. I am asking a question. There has been criticism directed against the grades and the fixed prices by the millers and the buyers.

Mr. HOCH. I know.

The CHAIRMAN. Under your arrangement, unless we provide for some specific provision the exchanges will fix the differences. The

commercial difference might be 20 cents, and the exchange might fix it at 3 cents.

Mr. HOCH. I am familiar in a general way with that situation. I am entirely in sympathy with that, Mr. Chairman. But there is no bill before you that says anything about grades.

The CHAIRMAN. I think that is the all-important part of the whole measure.

Mr. HOCH. I don't think there is a single bill before you with reference to this question of futures that bears in any way on the matter of grades tenderable under the contracts.

The CHAIRMAN. For instance, in Chicago 24 grades are valid, tenderable grades. Minneapolis 9, St. Louis 12, Kansas City 9. There is that wide spread. For instance, one exchange will fix the difference at 8 cents; others at 5 cents. Right there is a difference of 3 cents. The fixed difference may be 5 cents; the commercial difference might be 20 cents. Now the contract should be made at whatever that commercial difference is.

Mr. HOCH. Well, I will say, Mr. Chairman, that appeals to me I have not studied that question, but it seems to me there ought to be some certainty with reference to this.

The CHAIRMAN. I think we will agree on this point: Say, for instance, that you or I buy 10,000 bushels of wheat. We want to know something about the grade to be delivered. If we need, we will say, No. 2 wheat, we would certainly object to the delivery of no grade or No. 5 wheat. And if we did agree in the contract to accept No. 5 wheat, the actual commercial difference between the No. 2 wheat and the No. 5 ought to be the basis of difference.

Mr. HOCH. Yes; I think so.

The CHAIRMAN. But that is not provided for, as I understand, in any of these bills.

Mr. HOCH. No; but if I may go back again to the proposition I made before, Mr. Chairman, I don't think that these bills are aimed at that particular thing; not that they are out of harmony with it but they are not aimed at that particular thing.

The CHAIRMAN. There should be a provision for limiting the grades, and providing for the commercial difference, and the commercial difference to be fixed by the Secretary of Agriculture. But there are no such provisions in any of these bills. Nor is that the practice on these exchanges to-day.

Mr. HOCH. No; that is true. Nor does the cotton-futures act attempt to prohibit speculative dealings in futures. Now, we attempt to deal with an entirely different thing in this bill, Mr. Chairman I think it goes along with the fixing of the grades and the commercial differences, and all that, but those are not integral parts of this proposition.

The CHAIRMAN. One proposition is to eliminate this proposition from the board of trade and the other is to regulate as to the value of the deliverable article. The two go hand in hand.

Mr. HOCH. Yes; they are closely related subjects, but they are entirely distinct subjects, as I view the situation.

The CHAIRMAN. The point I want to bring out is whether you think it is of importance that we should provide some regulation that would guarantee to the buyer the commercial difference, both as to the quantity and quality to be delivered.

Mr. HOCH. Undoubtedly. And they are closely related, Mr. Chairman, but they are distinct propositions.

The CHAIRMAN. Are there any other questions? We are very grateful to you, Mr. Hoch.

Mr. HOCH. I would like, Mr. Chairman, to put into the record some extracts from a letter on this subject written by Mr. E. J. Smiley, who is the secretary, and has been the secretary for many years, of the Kansas Grain Dealers' Association, and who has given a great many years of study to this subject, and has been actively identified with the grain business for a long time. I would like to put these extracts from his letter in as a part of my statement.

The CHAIRMAN. If there is no objection, it will be so ordered.

(The extracts from the letter presented by Mr. Hoch are as follows, printed in full:)

1896–1920 KANSAS GRAIN DEALERS' ASSOCIATION,
OFFICE OF THE SECRETARY,
Topeka, Kans., December 28, 1920.

Hon. HOMER HOCH, M. C.,
Washington, D. C.

* * * * * * *

On May 30, 1920, the Government's guarantee on the price of wheat expired by limitation of the guarantee act. We take from the Grain Market Review, the official report of the Kansas City Board of Trade as follows: "Ending of Government control of wheat trading made no apparent difference in cash markets today, business being conducted the same as formerly, and with no changes in previously existing differentials between the various grades." The Grain Corporation having previously established differentials between grades to be continued during their period of control. June 1, following the Grain Corporation's control of the grain business of the country, No. 2 hard wheat sold on the floor of the Exchange in Kansas City at $2.89 to $2.90 per bushel. The following Monday, June 7, No. 2 hard wheat sold at Kansas City at $2.88 per bushel. Monday, June 14, No. 2 hard wheat sold at $2.85 per bushel; Monday, June 21, No. 2 hard wheat sold at $2.83 per bushel; Monday, June 28, No. 2 hard wheat sold at $2.78 per bushel; Monday, July 6, No. 2 hard wheat sold at $2.81 per bushel; Monday, July 12, No. 2 hard wheat sold at $2.88 per bushel, and on Thursday, July 15, the day future trading was reinstated, No. 2 hard wheat sold on the cash market at $2.88 per bushel and the December option opened in Chicago at $2.75 to $2.72 and closed at $2.70½ or 15½ cents per bushel below the cash. We quote from the Grain Market Review of July 15, as a prediction of what was to come. "A reduction in export bids, moderately larger arrivals and expectations that resumption of wheat future trading will enable millers and exporters to protect deferred requirements without buying the actual grain far ahead, made a smaller market for hard wheat to-day and gave prices an easier undertone."

I wish to call your particular attention to the fact that from June 1 to July 15, the range in prices on No. 2 hard wheat was only 7 cents per bushel, without any Government guarantee or any future market for hedging purchases. Immediately after June 1, 17 of the principal grain exchanges of the country commenced an agitation for the reinstatement of future trading, but inasmuch as the Lever bill gave the President of the United States the authority to discontinue all future trading as a war measure, these exchanges could not reinstate such future trading without the consent of the President. As far as we have been able to learn, there was no demand for the reinstatement of future [illegible] of the different grain exchanges that would profit by such [illegible] of commissions. Mr. Moses, president of the Southwest [illegible] made the statement that the millers of the country had [illegible] of future trading, and as far [illegible] the part of the producer and local [illegible] advised that certain bankers located [illegible] grain exchanges do business made a request [illegible] reinstatement of future [illegible] such request, that they, as bankers [illegible]

willing to loan money on grain stored in public terminal elevators without th protection of hedging purchases by sales on the future market.

In this connection, I wish to state that during the preceding year, bankers a all terminal markets were willing to loan elevator owners and operators suffi cient amount of money to store grain when the prevailing price was anywher from 25 to 60 cents per bushel above the guarantee of the Government. M attention has been called to the fact that the principal reason bankers at thes large terminals were directly interested in the restoration of future tradin was on account of the vast amount of money that was deposited at these larg centers. Under normal conditions. commission men and brokers demand margin of from 3 to 5 cents a bushel when purchasing grain for future delivery To illustrate: A, located at St. Marys, Kans., would place an order with hi commission man in Kansas City to buy 20,000 bushels of wheat for Septembe delivery. This order would be placed in July in order to protect his commissio man in the purchase of his grain—he would forward a check for $1,000 or cents per bushel on the 20,000. B, located at Emporia, would place an orde with the same commission man to sell 20,000 bushels of wheat and deposit chec with his commission man for like amount. On these two transactions ther would be $2,000 of money deposited at some bank in Kansas City or whereve the trade was made. When you take into consideration that hundreds o millions of bushels of grain are traded in annually, you have some idea of th vast amount of money that is deposited with the banks at these large terminals Under these conditions, is it any surprise to you that bankers are intereste in the reinstatement of future trading?

Returning to the market after July 15: Monday, July 19, No. 2 hard whea sold in Kansas City at $2.87 per bushel, and the December option in Chicag closed at $2.51, or 36 cents below the cash. Monday, July 26, No. 2 hard whea sold in Kansas City at $2.80 and the Chicago December option closed at $2.47½ On Monday, August 2, No. 2 hard wheat sold in Kansas City at $2.28 a bushel or a decline of 53 cents a bushel in one week, and the December option close at $2.13½, or 34 cents per bushel lower than the week previous.

At this time, the Canadian crop of wheat had not all been harvested. In fact harvest had just commenced. The spring wheat crop in the Northwest wa harvested and it was generally known that the yield would be very disappoint ing. In face of this fact, the talent was able to force the market down, althougl receipts at all terminal markets were below what they were in the previous year and the total visible supply in the United States was only 17,487,000 bushels against 20,903,000 bushels same time one year ago. There had been an activ demand from exporters for all the wheat they were able to obtain, and clear ances from export points was four times as great as the year before.

It is our contention that if future trading had not been reinstated we woul have had a steady market, as the demand abroad was greater than the supply It is reasonable to assume that as soon as the foreigner was able to purchas wheat for December delivery at a price 11½ cents to 25 cents below the prevail ing cash market, that he made purchases for December shipment, instead o buying the spot wheat.

I am not unmindful of the fact that some one must speculate from the tim the seed is put in the ground until it is consumed in the form of bread o other foodstuffs; i. e., whoever carries the product will profit by advance i price, or lose on decline. It is a legitimate transaction when one having grai sells to another, either for immediate or future delivery. Legitimate, becaus it is necessary that some one must own and carry the grain until it is neede for consumption.

There is no provision in this bill prohibiting the owner of the grain fro selling for future delivery; neither is there anything to prohibit the miller o manufacturer from buying for future delivery to supply his future needs Instead, provision is made in paragraph B, section 1, of the bill permitting th free and unrestricted purchase and sale of grain and grain products. Th feature of the bill that will be fought by the grain exchanges of this countr is the provision of taxing the individual that purchases or sells grain fo future delivery, not having ownership in same. The average speculator at th time he purchases grain through any of the grain exchanges has no though of accepting delivery, and in many instances is financially unable to pay fo the grain if delivered He, or they, buy or sell a quantity of grain, depositin a limited amount of margin, and if the market goes against them they simpl accept this loss and curse the medium through which they are permitted t gamble. Chicago to-day is the grain center of the world. There are a numbe

of wealthy concerns, members of the grain exchange, that lease wires for the alleged purpose of disseminating information of world conditions; i. e., condition of growing crops and markets throughout the civilized world. Their real purpose, however, is to induce the public at large to bet their money on the advance or decline of the market.

So profitable has this business become that throughout the entire country, from Main to California, and Medicine Hat to Pensacola, wires are leased by the so-called wire houses in Chicago, and offices have been opened in many towns of from 1,000 to 5,000 people, at no little expense, for the purpose of bringing in the "lambs." Unfortunately, much of this so-called "crop report" news is misleading, untruthful, and can not be depended upon. It is a fact that the small or country speculator is invariably a bull on the market, always looking for an advance in price, regardless of the prevailing price. When there has been a material decline in the market, these traders are slow to risk more of their money in the game and there must be some incentive to further interest them. You ask, "How is this done?" On the opening of the market these different wire houses will report by wire to their different agents scattered throughout the land that there has been a killing frost in Manitoba; black rust in Minnesota and the Dakotas; green bugs in Texas; drought in Oklahoma; grasshoppers in Kansas; locusts in Argentina; floods in Australia; rumors of war in Europe. This information is all typed and spread on the counter before an unsuspecting public. Result: Every one buys wheat. Final result: After the public has made purchases to their limit, report comes that the frost in Manitoba did little or no damage; the black rust reported from Minnesota and the Dakotas only covered a limited territory. The green bugs reported from Texas were in the plains district and little wheat was damaged. Good showers fallen in Oklahoma and danger of drought has passed. Grasshoppers in Kansas had been destroyed by a poison, and the war cloud hovering over Europe had passed away. The market declines and the sucker parts with his money.

I wish to thank you four your interest in the matter, and wish to assure you, as secretary of the Kansas Grain Dealers Association, that I will be glad to lend all possible assistance to do away with gambling.

Awaiting your future favors, I am,

Yours, truly,

E. J. SMILEY, *Secretary.*

Mr. TINCHER. Mr. Chairman, I have here a very interesting little pamphlet, which I received in this morning's mail, entitled "The Evils in Gambling in Grain Futures and its Effect on the Producer, the Consumer, and the Nation as a Whole," prepared by a gentleman named Willis Hough, of Chicago. I would like to have this placed in the record, Mr. Chairman.

The CHAIRMAN. Without objection, it may be inserted in the record.

(The pamphlet presented by Mr. Tincher is here printed in full as follows:)

The Evils in Gambling in Grain Futures and its Effect on the Producer, the Consumer, and the Nation as a Whole. Written by Willis Hough, 822 South Wabash Avenue. Chicago.

"It is becoming more and more evident that the grain pit of the Chicago Board of Trade is the most colossal gambling hell the world has ever known."—Capper's Weekly, published by Hon. Arthur Capper, United States Senator.

Gambling in grain futures and the institution through which it is done.

The writer remembers a report in the newspapers that the entire 1915 wheat crop of the United States was traded in on the Chicago Board of Trade 127 times. If this report is true, and there is no reason to doubt it, what does it mean? Referring to statistics we find that the 1915 wheat crop of the United States was 1,025,801,000 bushels, and that the 10 year average prior to and including that year was 738,425,000 bushels. Therefore, it means that if all the wheat raising farmers in this Nation could raise the 10-year average crop every year, and ship it all to Chicago, it would take them over 176 years to fill all those contracts. Is it any wonder that the Capper publication made the statement quoted on the front page of this booklet? On the above basis,

it is probable that every bushel of wheat consigned to Chicago that year was traded in 1,000 times or more. and gambling in grain futures has increased rather than diminished since that time. A western newspaper of large circulation recently published the figures to show that our 3,000,000,000 bushel corn crop this year had been bought and sold three times on the Chicago Board of Trade, causing a decline of over 60 cents a bushel before one ear of it was ready for market, and the 1920 wheat crop seems destined for a record run through this so-called gambling hell unless halted by congressional action. Senator Capper recently said that the farmers lost over a billion dollars, the lambs who played the game one hundred million, and that the brokers and commission houses had cleaned up over forty million in commissions and margins in the last 90 days; that more wheat was sold in Chicago in October than was raised in the United States this year; that our 1920 corn crop had been sold 14 times in Chicago before any of it had been marketed; and that only about 1 per cent of the trading was bona fide transactions for delivery. President Gatess, of the Chicago Board of Trade, attempted to reply but did not deny any of the charges. He probably couldn't. What do you think of it?

Was there ever a more exaggerated idea of a marketing device put in operation? Can anyone name another commodity outside of the cereals and cotton that would tolerate such juggling tactics in marketing for even one minute? Great lines of other industry such as the steel trade, the automobile industry, mining, and a thousand others that might be mentioned, conduct their marketing in a common sense way, while the world's basic industry, agriculture, is penalized by a system of gambling in futures that in volume and extent probably far exceeds the record of any other gambling institution in the world.

The board of trade, and those doing business through it get away with all this through a three-word triangular loop hole; viz, "intent of delivery" which they claim is applied to all contracts, but let us apply the acid test and see where we come out. If the public could get the figures from the clearing house sheets of the Chicago Board of Trade, it would find that the total trades in the most active futures would be expressed in numbers so large as to puzzle the average person to read them, and that the actual number of bushels of grain delivered on these paper contracts would be practically nothing in comparison. As an example, multiply the 1915 wheat crop, 1,025,801,000 bushels by 127 and we have 130,276,727,000 bushels. And what part of this was delivered? We know that it could not have been more than four-fifths of 1 per cent if all the wheat raised that year had been shipped to Chicago unless there was a multiplicity of deliveries of the same wheat. Does this look like delivery was seriously contemplated on a great majority of these paper contracts or that it is about 99 per cent gambling on paper for gain?

Then going to their propaganda booklet. we find that no delivery is intended on a "hedge" and that it is only a gambling transaction to offset a possible loss on a legitimate one. It is amazing that the Chicago Board of Trade should have made such an admission, when it has used "hedging" as a trump card to avoid being legislated out of existence for many years. Reading a little further in their booklet we find, "scalpers thrive on one-eighth cent profit." Any sign of intention of delivery on the part of the scalpers? Then our newspaper market reports show transactions almost daily that were turned over for gain and that no delivery was ever intended.

Another test of an institution claiming to serve the public is the percentage of service it renders, and applying this test to the Chicago Board of Trade, what do we find? The writer has openly challenged them time and again to show by their records that delivery on May, 1920, corn contracts were as much as one-tenth of 1 per cent of the total trades in that future. They have never accepted the challenge, and I am confident that they can not refuse the charge and I am going to further challenge them to show by their records that the actual delivery of grain on any May or December future during the last five years in either wheat, corn, or oats has equaled 1 per cent of the total trades in the future.

Judging the Chicago Board of Trade in the light of these tests we must conclude that delivery is not intended or desired on an overwhelming proportion of the future contracts, and being so, it is only gambling on paper for gain. And further, that the proportion of deliveries to the total trades is so infinitely small as to make its degree of service not only practically negligible, but extremely detrimental to the producer, the consumer, and the Nation as a whole.

GAMBLING IN GRAIN FUTURES IN ITS EFFECT ON THE PRODUCER.

One of the strangest situations has developed in the rising indignation of the farmers over the gambling in grain futures on the Chicago Board of Trade. In order to keep from being legislated out of business, the latter has maintained for many years that it was of vast importance to the farmers, but they have suddenly risen up en masse and torn the mask off of the thing and at last realize that gambling in grain futures is about as much benefit to them as a weasel in their hencoops. For an institution to maintain that juggling an article more than one hundred times between the producer and the consumer aids in distribution and is a benefit to both of them is an insult to their intelligence. No theory could be more monstrous and misleading in a deliberate attempt to deceive.

Seeing the rising indignation of the people over the gambling in grain futures, the Chicago Board of Trade put out a propaganda booklet recently in an attempt to stem the tide and appease, above all, the farmer. In it they gave a 1914 cash transaction in wheat in an endeavor to show their importance and efficiency. In this transaction it was shown that this wheat got no nearer to Chicago than the State of Kansas, where it was raised. It was sold by the farmer to his local grain dealer, who shipped it to an exporter at Galveston, Tex., and who in turn consigned it to Liverpool. There was no commission charge or "hedging" charge to show that the shipment passed through any commission firm or board of trade, and it would be interesting to know how the Chicago institution got the details of the transaction nearly six years afterward, printed it as propaganda, and tried to claim credit for it. It does not seem like the most ignorant could be deceived by such propaganda. By using such an illustration the Chicago Board of Trade has shown the weakness of its position in the grain business. Far more interesting would have been a 1915 wheat transaction showing 127 grain gamblers and speculators standing in line and grabbing for a share of it through the Chicago Board of Trade while the shipment was on its way from the producer's farm to the consumer's table. Another interesting illustration would be the 14 jugglings of the 1920 corn crop at a decline of nearly a dollar a bushel before any of the crop was ready for market.

The September and December futures are often traded in before spring wheat, oats and corn are sown and planted. Could anything be more outrageous than trying to fix a price on the crop at that stage in the making?

The board of trade claims that it acts as a stabilizer. As a matter of fact it is the most unstable factor in the market. Because of the violent fluctuations caused by the gambling in grain futures country grain dealers can not with safety to themselves pay within 10 cents a bushel on wheat and 5 cents a bushel on corn and oats that they otherwise could if this menace did not exist. On a five billion bushel crop of wheat, corn, and oats, this amounts to around $300,000,000 direct loss to the farmers from this source alone.

It hurts the farmers in more ways than one. This is an exporting nation. Trading in futures enables foreign buyers to depress our markets by selling large quantities of futures, buy the grain on the break below its real value, and then quietly buy in the futures at a profit besides. It also enables the exporters to play one exporting nation against the other. They break our markets with bearish reports on the Argentine then they break the Argentine market with bearish reports on us and thus it goes from one exporting nation to another. The Herald and Examiner of November 29, 1920, commenting on the grain market had this to say:

"The establishing of new low prices was of almost daily occurrence last week. At the extreme low figures December was down $1.23 from the top on the crop and March $1.28 from the high point of the season. A point has been reached in the long drawn out decline, probably the most severe in the grain trade, where our wheat was the cheapest in the world. We are underselling Argentine wheat by 10 to 12 cents a bushel and are also cheaper than Canada and Australia." How would a protective tariff help us under such conditions? Exports for the week were given at from ten to twelve million bushels, and with our exports in October of over 42,000,000 bushels of wheat, the largest on record, plainly shows what has been going on. It is significant that the newspapers said, "Speculative selling has been heavy the last few days." and one of the reasons for nearly every break was "Houses with export connections were heavy sellers of futures." A tariff on wheat would be of doubtful value

to the farmers of an exporting nation. Far better would be the putting of a ban on gambling in grain and cotton futures that enable the foreigner to raid our markets so successfully.

The board of trade has put forth the claim that it offers opportunities for farmers to "hedge" their crops through it, but it is quite noticeable that the most of them that have tried it have not only lost their crops but their farm besides and found out that monkeying with the board of trade was about as safe as sitting down on a buzz saw.

Gambling in grain futures is 100 per cent against the farmer from any angle you wish to view it, and in the following article I will show that it affects the consumer in about the same way.

GAMBLING IN GRAIN FUTURES AND ITS EFFECT ON THE CONSUMER.

The consumers' side of it can be dismissed in a few words. It is all against him. Grain gambling crowds the price of foodstuffs upward on a bull campaign and leaves the consumer hanging on the top peg during a bear raid. Nearly four months elapsed after the high point for wheat was reached last July before the prices of bread was reduced in Chicago. In the meantime wheat had gone down over a dollar a bushel. The millers and bakers pleaded stocks of wheat and flour bought at high prices as the reason. If this be true, it is very evident that they do not avail themselves of the opportunity of placing a gambling "hedge" through the board of trade to offset a possible loss on the stocks they carry, or that they are guilty of the most shameful profiteering for they have taken a double profit, one on the "hedge" and one on their merchandise and gambling in grain futures had made it possible for them to do so. If they did not "hedge," it sharply refutes the contention of the board of trade that "hedging" is demanded by millers and other large handlers of wheat and flour and the milling journals are openly fighting gambling and speculating in grain futures besides. Are board of trade officials talking for the farmers, millers and consumers, or the speculators, gamblers, and brokerage houses that are taking millions out of it? Look out for these pretending Good Samaritans, for they care for nobody's interest but their own.

The system is 100 aginst the consumer and nothing in his favor.

GAMBLING IN GRAIN AND ITS DIREFUL EFFECT ON THE NATION.

Radiating from the grain pits of the Chicago Board of Trade and spreading out over this Nation like a gigantic spider web is a system of leased wires that reach from the Atlantic to the Pacific and from Canada to the Gulf. On these wires are branch commission-house offices, probably running into the thousands that act as feeders for the parent institution. These branch offices slip into town quietly and operate quietly so as not to arouse the better class of citizens of the towns. On the books of these branch commission officers are accounts of hundreds of thousands of small traders or gamblers, which they really are for very few of them ever expect or intend delivery, and who dabble in from 1,000 to 20,000-bushel lots. This comprises the board of trade's sucker list. The majority of these amateur traders enter the game under the belief that it is a real market based upon supply and demand of the world's most important commodity, only to find out a little later on that it is only a scheme of a lot of professional gamblers to fleece them out of their money. If you think that the Chicago Board of Trade has any standing with hard-headed business men go to your local banker and ask to borrow $1,000 to play the game and see what he tells you. One of the first questions that Dun or Bradstreets will ask before giving a business man credit rating is, "Does he play the board of trade?" The Chicago Tribune of November 29, 1920, cited an instance of a farmer sending a commission firm a note for $750, explaining that, although the farmer was worth $200,000 money was so tight that he could not borrow $750 at his bank. Why was this farmer owing this commission firm money? The facts probably are that Mr. Farmer had been bucking the board of trade and got "trimmed" and his banker would not loan him money for that purpose knowing that the longer he stayed at it the less of his fortune he would have left [illegible] might all be taken from him in one sweep of the board.

[illegible] authority would compel the Chicago Board of Trade to make public the figures of the transactions through it for the last five years; that is the [illegible] number of bushels of all grains bought and sold through it on paper

and then the actual number of bushels of real grain delivered on the paper contracts, the comparison would undoubtedly stagger the nation and make the quotation on the front page of this booklet look like a very mild statement indeed. Likewise, if several of the big operators could have their transactions shown up in the same manner, some of these so-called wheat kings and corn kings would probably have their titles changed to gambling kings instead. And if all the money sent into Chicago by these branch commission house offices annually could be collected into one sum, the total expressed in figures would startle the financial world, and if the amount could be applied to the liquidation of the national debt it would go a long way in that direction.

The Chicago Board of Trade has never contended to my knowledge that these branch commission house offices were a benefit to the cities in which they are installed. They are city bleeders and nothing else.

"The gambler loses money first, then character, then honor. Gambling is a worse vice than drink. It is the worst of all mental vices."—Editorial, Herald and Examiner.

Grain gambling is doomed. The handwriting is on the wall. Newspapers say that the Chicago Board of Trade building rests upon the sands, that it is rocking on its foundation and that they have constructed a heavy wire screen under the ceiling to keep the plaster from falling on their heads.

There is hardly a citizen in any of the other cities afflicted by these places that does not have ample evidence of their terrible effect on the community. How many honest bank officials have gone wrong because of the temptations of grain gambling and the savings of millions of people lost or endangered thereby? How many good men have lost their fortunes, their homes and their all through it? How many suicides, divorces, insanity, and other forms of misery must be charged against it? Next to the liquor traffic, if not first in line, it holds the stellar rôle as the greatest creator of misery in our Nation to-day.

THE REMEDY.

There appears to be enough law on the statute books of Illinois against gambling to suppress such activities in grain futures. but for some reason or other the officials having the enforcement of the law entrusted to them have failed to act. It would also seem that the new chief of police of the city of Chicago, who is making a crusade against booze joints, murder dives, and gambling hells could not pass up the grain gambelrs long if he intends to do a thorough job. The people of this great Republic are beginning to wonder if the laws against gambling in the State of Illinois are made for the crap shooter and the penny ante class, while the gentlemen gamblers in grain futures, who play the sky as the limit are immune.

But what we need is a strong Federal law that will forever abolish speculating and gambling in grain and cotton futures in every State in the Union. The price of grain may be put up when Congress meets to quiet the farmer, but don't let that deceive anyone. Let Congress act on this important matter without further delay.

Trading in grain and cotton futures is only a scheme to allow gamblers to pile up millions without working for it, and it has no place in the business affairs of this Nation.

The CHAIRMAN. We have a number of requests from various parties for hearings, some suggesting definite dates. I propose sending the following telegram to them all, except those who suggest a date that is not now taken or where it seems advisable to suggest a definite date to them. The proposed telegram reads as follows:

The committee has decided to close hearings January 15. Numerous requests on file. If possible arrangements will be made to hear all briefly.

Without objection, this telegram will be sent to all requesting a hearing except, as stated, to the few who suggest a definite date, which requests seem advisable to grant or where it seems advisable to suggest an earlier date than they would appear before the committee if they should receive this telegram.

Mr. McLAUGHLIN of Nebraska. Mr. Chairman, I have here a telegram from Mr. J. W. Shorthill, of Omaha, Nebr., Mr. Shorthill being

the secretary of the Nebraska Cooperative Live Stock and Grain Association, in which he says that he regrets he can not be present to be heard before this committee because of other duties, but he asks that his views bearing on this legislation, as expressed in this telegram, be placed in the record.

The CHAIRMAN. Without objection, this telegram may go in.

(The telegram presented by Mr. McLaughlin is here printed in full, as follows:)

OMAHA, NEBR., *January 6, 1921.*

Hon. M. O. MCLAUGHLIN,
House Office Building, Washington, D. C.:

It is impossible for me to attend hearings now before Committee on Agriculture, but I am much interested in proposed legislation on future trading in grain. Will you please present to the committee my views as follows:

Some means of minimizing manipulation is very much needed. The remedy probably lies in broadening the market rather than in narrowing it. Regulatory legislation is apt to narrow the market and make it still more susceptible to manipulation than it now is. On account of economic value in future trading, its abolishment will cost farmers tremendously unless something effective be devised to replace it. To simply abolish future trading will place markets more in control of large capital than they have ever been before. In my judgment, one of three courses is open to Congress on future trading. First, leave it alone. Second, abolish it directly by prohibition or indirectly by stringent regulation. Third, legislation to broaden the market.

J. W. SHORTHILL.

CENTRAL CITY, NEBR., *December 27, 1920.*

CHARLES QUINN,
Secretary Grain Dealers' National Association, Des Moines, Iowa.

DEAR SIR: I have your letter of December 24 giving a report of the legislative situation as it appears to the committee at this time, and I appreciate very much the information therein contained.

One important factor in the lowered price of grain to the farmer seems to be overlooked and not commented upon in any articles I have seen. I referred to the tremendous advance in freight charges since prewar time. For example, the old freight rate to Omaha from Grand Island, Nebr., before the war was 11.9 cents per hundredweight, equal to 6⅔ cents per bushel, whereas now the freight and war tax amounts to 22.5 cents per hundredweight, equal to 11.98 cents per bushel, an advance of 5⅓ cents per bushel, or 80 per cent increase since prewar time. On corn to Chicago the old rate from Grand Island was 22.9 cents per hundredweight, or 12.88 cents per bushel. The through rate is 42.5 cents per hundredweight, which with the war tax amounts to 24.53 cents per bushel to Chicago, an increase of over 90 per cent.

Now, if this 11.65 cents per bushel were added to the present paying price for corn, the farmer would think he had a quite satisfactory return on his money for we have a big crop, and at present are paying 49 cents here for good yellow corn. This should make a paying price of 60 cents for the same corn if the additional 12 cents could be placed upon it.

Yours, truly,

GEO. P. BISSELL, *Secretary.*

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ASH. Well, I do not think we need it now, although I am
concede that there may be some excuse for it.

report a bill, which will absolutely prohibit dealing in farm products speculatively, while not, of course, preventing legitimate trading by those who actually hold the crops. If I remember correctly, the Minneapolis Chamber of Commerce sells from 8 to 10 times, and even more, as much wheat as is produced in the country. I will try to check up those figures for the record. That illustrates the futility of this gambling—that is all it is—in the wheat crop, and the same principle applies to any other crops.

I do not need to tell the committee what serious condition agriculture is in, but I would like to emphasize that to my mind and in the opinion of the council there is now on a nation-wide fight between the primary producers of agricultural products who have produced in the past at a very serious loss, and certainly at a terrific loss during the present year, between these primary producers and the middlemen or speculators financed by investment bankers, who in the past have been practically the only ones to profit from agricultural production. The farmers of America, if we understand their position correctly, are determined to eliminate these speculative middlemen who do not add one dollar to the value of farm products but who make, speaking conservatively, hundred of millions of dollars profit speculating in them and who establish this direct trading so far as possible between the farm producer and the city consumer.

As you know, the wheat people working on this commodity marketing, and the cotton people, had some plans under way which, I understand, have been temporarily interfered with and held up because of the very serious drop in the price of cotton. The wool people had similar plans. We have got to put agriculture upon a profitable basis, which means that the farmers have got to get all cost of production, including freight charges, and a reasonable profit, which must be at least as high as the current rate of interest in the locality where the crop is raised. I say, at least this; that is the minimum.

We are unable to see where speculative dealing in any of these farm staples can benefit anybody except the speculator. With the poverty that exists throughout the world and the desperate hunger prevailing throughout central and southern Europe, and the recurrent famines in China and India—there is a very serious one in China to-day—it is clear that we have got to have a different organization from that obtaining now for the marketing of wheat and foodstuffs generally, and the gambling element has got to be eliminated from farm production, by which I mean that the farmers have got to be protected against the risk which they have to take—not that they are gamblers, but against the inherent risks of agricultural production. That can be done only partially under our present system, but the risks which farmers run are risks which they should be protected from and which we hope you will enact legislation to so protect them from.

I think that gives briefly the position of the Farmers National Council. We have not, of course, drafted a bill, but you have the principles before you in several of these bills. Our own judgment is that if it be possible definitely to prohibit speculation—that is, dealing in futures, short selling, and any trading except as I stated when the crops are in the hands of those who do the trading—that will be the better plan. We do not know whether it is going to be

feasible to accomplish this by the exercise of the police power, through the tax on the sales, as provided in Mr. Tincher's bill. That may be the most effective way. We do not feel that we can give a final judgment on that question, but I think we have made clear what we want to have accomplished by this legislation.

If I may, I should like to lay briefly before the committee two proposals which we have made dealing with this question of farm staples, for the purpose of helping the farmers to secure a reasonable price and generally stabilizing the price of farm products.

The CHAIRMAN. Before you go into that, may I ask you a question? If you limit the transactions to the sale of the actual product by the person in possession of the grain, there would not be any need of an exchange at all?

Mr. MARSH. I do not see that there would be, and I do not see what necessary service the exchanges render. I can say that until you get this commodity marketing thoroughly established—that, marketing farm products by commodities—there is an apparent excuse for these exchanges; but when you have organized all the producers of wheat, on the one hand, and then organized the millers on the other hand to purchase their product, I can not see what useful function could be performed by any grain exchange—after you get that commodity marketing system thoroughly organized, or even 85 or 90 per cent organized.

The CHAIRMAN. At the present time the brokers and commission men take care of that part of it—that is, the transaction between the shipper or the grower and the miller or the consumer—and that is done outside of what we call future exchanges.

Mr. MARSH. You mean they have the goods actually on hand, those who have them on hand?

The CHAIRMAN. They handle them on commission, yes.

Mr. MARSH. Well, that is what I am treating, as distinguished from speculation.

The CHAIRMAN. How far would you go beyond that, or would you limit it exactly to the trading?

Mr. MARSH. I think you meet every necessity of the transaction between producer and user when you limit it merely to that trading.

The CHAIRMAN. Then your position is that there is no need of what we commonly call exchanges at all?

Mr. MARSH. There certainly will not be when commodity marketing is organized. We are in a temporary position now, because we have not got this commodity marketing established as to the staples.

The CHAIRMAN. As I understand it, you mean the marketing that is done directly by the farmers themselves, just the same as they do in California?

Mr. MARSH. Yes; that is what I mean.

The CHAIRMAN. It is done now through the medium of the commission man or broker; that would be the only difference. In what respect would there be any less necessity for the exchange?

Mr. MARSH. I say, when you get the commodity marketing organized there will be no need of an exchange.

The CHAIRMAN. Do we need it now?

Mr. MARSH. Well, I do not think we need it now, although I am willing to concede that there may be some excuse for it.

The CHAIRMAN. Then your position is simply to wipe out the exchanges?

Mr. MARSH. To wipe out the whole dealing; because while there may be some little difficulties temporarily, I think they would be largely difficulties of the men who are wiped out, and not necessarily inherent difficulties in the direct transaction.

The CHAIRMAN. Of course time would have to be given for adjustment?

Mr. MARSH. Oh, you have got to have time for adjustment. I suppose it would be three months, or six months, or some such time as that, possibly several weeks, so as not to wipe people out who have investments and commitments in the business. I can not suggest how long would be necessary.

The CHAIRMAN. But the ultimate result would be to wipe them out?

Mr. MARSH. The ultimate result would be to wipe them out.

If I may, just briefly, I wish to get a matter in the record which I have presented informally to the members of the committee. Although we realize that a good deal of wheat has already left the hands of the producers—I have seen the proportion that has already been sold estimated at 40 or 45 per cent and possibly 50 per cent—we believe that with the very serious drop in the price of wheat since the first of July, far below the cost of production, it would be wise to have the United States Grain Corporation revived, but instead of having it under the control of a man like Mr. Julius H. Barnes—who, however honest, did not have the producers' and consumers' standpoint but did have the millers' and elevator man's standpoint—it should be under the control of representatives of organized farmers and organized labor and organized consumers, and should be provided with funds to enable it to buy all the wheat, and directly, so far as possible, from the producers themselves, at the bulk-line cost of production plus a reasonable profit, to sell that wheat clear through to the consumer, and, so far as possible, exercise complete control over the elevators and milling plants, and leaving it then to the city authorities to supervise the bakeries and the prices charged for wheat flour in the localities where there are any cities or towns, working again in cooperation with this United States Grain Corporation.

You see, our recommendation on this is a temporary arrangement, for this year at least, but is based on the same basis principle as we suggested before; that is, prohibiting dealing in futures and eliminating the speculative middleman. We recommend applying this right straight through, as far as wheat is concerned. It is certainly clear that if you have a United States Grain Corporation buying the wheat of the country you will not need grain exchanges while it is operating. There would be no place for them. You would not need speculating in futures. You would not need short selling or hedging.

The CHAIRMAN. Do you mean for the corporation to take over the surplus at the cost price?

Mr. MARSH. To take over all the crop.

The CHAIRMAN. I understood you to say the producers would be permitted to sell direct to the millers and bakers. Of course it would not be necessary for the corporation to handle that; it would

only handle what was offered to it if the price were below the actual cost.

Mr. MARSH. I do not make myself clear. I mean that the corporation should have a revolving fund, sufficient so that it could buy all the wheat that is in the hands of the producers to-day at the bulk-line cost of production plus a reasonable profit. Let them be in possession of that wheat, and then, of course, the milling companies would buy wheat from them.

The CHAIRMAN. From the corporation?

Mr. MARSH. From the corporation.

The CHAIRMAN. Why not permit them to sell direct? Why should it go through those hands?

Mr. MARSH. Or sell it direct, but so that they will not be under the complete control of the elevators and the millers.

The CHAIRMAN. You do not propose to limit that to wheat?

Mr. MARSH. That is for the United States Grain Corporation. Then I want to suggest, too, the plan which I yesterday and to-day placed before the House Committee on Banking and Currency and the Senate Committee on Banking and Currency, as to a commission for exporting the surplus of our farm products—unless you have further questions relative to the Grain Corporation, Mr. Chairman.

The CHAIRMAN. Have you any estimate as to what capital stock would be required, or the amount of money required?

Mr. MARSH. No; it would depend, of course, on how much wheat is now in the hands of the producers themselves.

The CHAIRMAN. But if it is necessary with respect to wheat it is necessary with respect to other products.

Mr. MARSH. I have another suggestion which I think will meet that situation. We recognize this difficulty, which was raised in the hearing before the House Committee on Banking and Currency yesterday. We are, as usual, several months too late with this proposal. Certainly some proportion of the wheat, say two-fifths, has already been sold; it is in the hands of investment people. I was asked a very legitimate and proper question by a member of the Committee on Banking and Currency, as to whether I proposed that these investment corporations which had bought this wheat or other farm staples at the low prices obtaining to date, far below the cost of production, should be paid the real cost of production, and if so, whether the advantage would go to these corporations and not to the farmers. In so far as the crops have left the farmers' hands and gotten into the hands of these people I can see that it would tend to do so, which I very much regret. I also regret that Congress did not some weeks ago adopt our suggestion for the revival of the United States Grain Corporation, when the situation was very desperate and the farmers were still holding on to the major part of their wheat crop.

I do not see how that can be met except in one way. Of course, as you know, the very last thing we want to do is to suggest anything which will mean any unearned profit for these middlemen who control any of these farm staples. But Congress can do this, at least. There are not so very many of those corporations which buy up food supplies, such as wheat. Congress could ascertain what they

have paid for the wheat or other farm staples, and could compel them to sell at a price which would mean only a reasonable profit to these corporations. They could do that just as well as they could find out what a man's income is, and tax him accordingly. Therefore, our suggestion will benefit only the primary agricultural producers, as our intention is, and if Congress will enact legislation to control these corporations, it will not enable them to make any unearned profits, and we do not want them to.

As to the other proposal which I made yesterday before the House Committee on Banking and Currency; it directly affects agriculture, and I should like to give it in this record, if I may, and I shall be very brief.

The Farmers' National Council recommends that Congress create a commission of from five to seven members, of whom at least two shall be farmers or representatives of farm organizations, to serve as a sales collection agency to finance the export of surplus supplies of the following farm staples and others which the commission may deem necessary: Wheat and wheat flour, potatoes, wool, meat and meat products, milk and dairy products, and tobacco.

These products should be purchased by the commission, so far as possible, from the producers themselves at the bulk line cost of production, plus a reasonable profit. The commission should determine the price at which these farm staples shall be sold, and the length of time credit is to be extended to the purchasers, whether these purchasers be the Government, or corporations, or cooperative organizations, or private societies.

The Farmers' National Council recommend that the appropriations asked for the Army and Navy, aggregating in round figures $1,634,000,000, be cut in half, and that at least $800,000,000 be made available for this commission.

Let me make it clear that we are not criticizing at all the purpose of those who ask to have the War Finance Corporation revived, but with all due deference to the Federal Reserve Board we can not escape the conclusion that the Federal Reserve Board to-day is in the control of the investment bankers, and there is absolutely nothing in section 21 (a) of the War Finance Corporation act which gives the farmers any assurance that they will get credit to finance the export of their crops.

The CHAIRMAN. Just a word about the Federal reserve bank; there has been so much said about that. Nobody has an absolute guaranty of anything, but the purpose of the bank is to assist everybody so far as possible, and I think that so far it has done very well. Do you know of any complaint lodged against the Federal Reserve Board that it has not done its full duty in that respect?

Mr. MARSH. As far as the farmers are concerned, I have not heard many kind words for the Federal reserve system.

The CHAIRMAN. But have you heard any adverse criticism?

Mr. MARSH. Absolutely; yes.

The CHAIRMAN. What is the criticism?

Mr. MARSH. The adverse criticism is this: That the farmers have not been able to get credit, particularly short-time credit. Of course we are talking of short-time credit now—that they have not been able to get it in many parts of the country, and where they do they are paying, 8, 10, and 12 per cent.

The CHAIRMAN. Yes, but have they been discriminated against? Have others been favored?

Mr. MARSH. I have observed this. The packers have been able to get all the credit they want from the Federal Reserve Board.

The CHAIRMAN. They are about the same, the one that handles the finished product and the one that handles the live stock.

Mr. MARSH. No; I do not think they are the same.

The CHAIRMAKN. The live stock could not be marketed unless somebody was able to take care of it.

Mr. MARSH. And going further back, the live stock, the raw material for the packers, will not be available in the future unless the farmers can get credit to raise it.

I was just talking with Mr. Ryder, who was over at that Senate hearing this morning. He says he has come to the conclusion, as he has traveled over the country, that our supply of live stock, including milch cows, is only about half what it was 12 or 15 years ago, and that it is because they do not get the credit.

The CHAIRMAN. Yes; but why don't they get it?

Mr. VOIGT. Of course, you know I have the interests of the farmers at heart——

Mr. MARSH. Yes; I know you have, Congressman.

Mr. VOIGT. But don't you think that, especially in the western part of the country, the failure of the farmers to get credit is due to the fact that they have not got the security?

The CHAIRMAN. Answering for my section of the country, that is not the trouble; the money is not available. We ought to be absolutely fair with everybody. In the State of Iowa, which is considered one of the wealthiest States, a very prosperous State, our basic credit is $38,000,000. The Federal banks have loaned about $100,000,000—about 300 per cent of the basic credit. Nearly every bank in Iowa has rediscounted heavily.

Now, I do not mean to say I would criticize the Federal reserve banks for having loaned 300 per cent of the basic credit. It seems to me they have done very well. If there is any remedy it ought to be found, but we should not criticize unless there is just cause for adverse criticism.

Mr. VOIGT. I have not heard of a single farmer in my district failing to get a loan if he was responsible or had sufficient security to offer. A failure on the part of a farmer to borrow money is unknown in my district, providing that farmer puts himself in a position to make a loan, just like any other business man would have to at a bank.

The CHAIRMAN. But your bankers are not above the basic credit; our banks are, three times over, and they are able to supply your banks and not the banks in my State. We were told here that in Kansas they were compelled to pay 16 per cent because they had exceeded the basic credit. It is a graduated rate of interest. The trouble is, our currency has disappeared; just where it has gone I do not know, but it is not there. Everybody is borrowing. Deposits are shrinking. It is nothing uncommon for a little bank in Iowa to have its deposits decreased by $200,000 in the last few months, and it makes them hustle around to borrow money. There has to be some limit to these credits, and the Federal reserve bank has to exercise some discretion in the matter, and what it is trying

to do is to deflate the currency. It may have acted abruptly, and possibly unjustly in some instances.

Mr. MARSH. May I answer that now, Mr. Chairman? A very recent issue of Commerce and Finance, I think the one previous to this week, has a statement by Mr. Theodore H. Price, who is regarded as a very careful and accurate statistician, that the gold reserve in the Bank of England is about 8 per cent. Here we are trying to hold it at around 40 per cent. Mr. Price points out that we are trying to hold the gold reserve at 40 per cent, and England is letting it go down to this low figure, which does not means quite the same as it does here, because of the difference in exchange, but certainly the disparity is tremendous. And as Mr. Price points out, England is capturing the world's markets. Now, you know, you can overexpand, and the figures which they give as to the increase in the national debts of the world, showing that the increase in the national debts has been $90,000,000,000 since the armistice or at a higher rate than during the war, show that there is a limit.

But we have certainly got to recognize that farm products are wealth and the best security there is. The Secretary of Agriculture thinks, and I charge, that the farmers, with a larger crop this year than last, will receive $3,000,000,000 less. We know perfectly well as I stated before some of the members of the committee came in that there is a fight to the finish between the farmers and the big financial interests as to whether the farmers are going to market their stuff or whether the big financial interests are going to have the whole profit in agriculture, which lies in marketing.

The CHAIRMAN. But that is a different thing from what we were discussing.

Mr. MARSH. No; it ties right up with Congressman Voigt's question.

Let us see. Lack of credit reduces farm prices. Of course, increasing freight rates does that, too. What happens? Here we have in this country this enormous crop, in many staples practically bumper crops. We have exported manufactured products to Europe and they are loaded up, and they have billions of dollars of unsecured debts for manufactured exports from this country. Now, these financial interests said here, "If we can force the farm producer to unload these farm crops in a hurry we will jamb the price down, and we will make a lot of money out of it." How could they best do it? I do not care how much has been loaned in Iowa—it is an exceptional State—unless the farmers have got——

The CHAIRMAN (interrupting). It is not exceptional in the western section of the country; that condition is almost universal in the western half of this country.

Mr. McLAUGHLIN of Nebraska. In the tenth reserve district it is about the same.

Mr. MARSH. It is an exceptional case if the farmers have the money on hand for raising their crops and to enable them to hold those crops during the year and market them as they are needed, say a twelfth for each of the first 10 months of the year after harvest, or in that proportion.

Now, here is the situation. Somebody has got to finance the holding of the farmer's crops until there is an effective consumption demand. I do not mean to use the word "holding" in an invidious

unfair way; somebody has got to finance the storing of the farmers' crops; either the investment banker, as usually happens, that is through the corporation that gets hold of these crops, or the farmer. The farmer is taking the position that he is entitled to the credit to enable him to hold those crops, because somebody has got to hold them, and the fellow that has done the work, for which we have Scriptural authority, is entitled to the profits. But as a result of withholding the credit from these farmers what has happened? Farm prices have been cut by one-third on the average; they have fallen from $15,000,000,000 to $10,000,000,000.

The CHAIRMAN. They have withheld it from the farmers, but they have withheld it from everybody else. Can the merchants get money?

Mr. MARSH. Well, they have money.

The CHAIRMAN. The big merchants can not borrow the money any more than the farmers, because it is not there.

Mr. MARSH. Pardon me. I have seen no statement of the Secretary of the Treasury which would disprove the statement of Comptroller of the Currency Williams that by waiving the requirements only 10 per cent as to the reserve we could have two and a half billion dollars additional credit, and that without any waiving there would be $700,000,000 additional available. And Senator Owen, former chairman of the Senate Committee on Banking and Currency, made the same statement.

The CHAIRMAN. Well, if you waive the requirement as to the gold reserve and start up the paper mills, of course there would be no limit. Everybody could have money if you would get enough paper and get enough printing presses to run it off. But we are supposed to be on a gold standard. When you speak of Europe, I have heard the statement made a number of times that if you would scrape together every ounce of gold and every gold dollar they could not find enough to pay the interest on their indebtedness. Do you consider that sound financing?

Mr. MARSH. I maintain this, that there is only one sound basis of wealth, and that is wealth; that farm products are just as good security as gold.

The CHAIRMAN. Of course, that takes us entirely away from the subject under consideration.

Mr. MARSH. No; I think it brings us right down to the subject as to what has worked havoc to the farmers during the last few years.

The CHAIRMAN. Let us confine ourselves to the exchanges. You brought up the question about the Reserve Banks, and I wanted to know what grievances there were, if any.

Mr. MARSH. Well, there must be something wrong when the farmers' prices are deflated by one-third. I am going to talk Saturday night at the Economy Club here on Painless Deflation, and I am going to point out——

The CHAIRMAN. Of course, we all know the cost of inflation.

Mr. MARSH. I say, painless deflation. We have taken five billion dollars off the farmers' credit this year—a third of it. Now, there is a little group of 23,000 people who own $136,000,000,000 worth of property. Thirty-three people own nearly $10,000,000,000 worth of property. I am going to suggest that we deflate their property by a capital tax. Apply the same treatment to them that we do to the

a proposition like this to benefit the entire Nation, whereas 8,301 stockholders of the railroads own about half of the total value of the stock?

We are just putting it up to Congress, and I am going shortly over a good part of the country talking with the farmers on this. I am not criticizing at all the revival of the War Finance Corporation, but the farmers will get next to nothing out of it unless you specifically say that here is a sum to be used exclusively for the sale of surplus farm products.

The CHAIRMAN. But you can not export unless you have a market for your product.

Mr. MARSH. Why, have you read Herbert Hoover's appeal for the starving children? You know, there are 15,000,000 people starving in China, and our wheat and corn and other products will look and taste mighty good to them.

The CHAIRMAN. We have people in the United States that have more interest in Europe than they have in the United States. I have more interest in the United States; I do not want to bankrupt the United States, by any means.

Mr. MARSH. I do not either; I am not suggesting it.

The CHAIRMAN. Give us some proposition that is sound and sane, and I am with you. So far as helping anybody is concerned, we are all with you, but hardly at the expense of bankrupting ourselves. If, as you suggested, we are whistling in a graveyard, it is time we were making preparation for the future.

Mr. MARSH. Yes, sir; but I would say that what Congress will have to do very shortly is to undertake a program of construction—much-needed national construction—to provide for these 4,000,000 unemployed. There are bridges, and railroads, and public buildings to be constructed, and you have got to organize a method of financing it.

I have stressed right through here the export of surplus farm products. I have already suggested the revival of this United States Grain Corporation. But I do not feel it to be within the scope of this committee's activities, if I correctly understand it, to suggest here this program of public construction. I did not think it would come before you logically, but I am very glad to make it.

Those are the chief proposals I want to make, but let me stress this fact—that even if our purchasing capacity in this country were fully met; or, I should say, if the consumption demands are fully met—we will still have quite a surplus of farm products available for export. And what are the farmers going to do with them if they can not get some means of selling them?

How can Congress, which is now suggesting raising a billion dollars by a retail sales tax, simultaneously say that it has any regard for the American people? I do not say that that is official, but there are several Members of Congress who have discussed that; it has been suggested in political platforms, and we have thought of it. Why, you have a little group of 23,000 people who own property worth ten times the net national debt. We suggest taxing them instead of taking a single cent more out of the people, because every extra dollar of taxes that you take out of the rank and file of American workers on the farms, in the cities, in transportation, and in the

Mr. MARSH. Just to-day a conservative farmer from a southern State said to me: "Marsh, you know I am not a wild man, but I am going to tell you right now that any leader in this country could start a bona fide revolution, if he had the nerve, without any trouble, the farmers are so darned mad over what has happened." I am not indorsing that, and he was not indorsing the idea, but he was simply stating the fact that every one of us who is in touch with the farmers from one end of the country to the other knows. There are 4,000,000 unemployed in the country to-day—not on the farms, but in industry. That is why we suggest that you do not rely upon this War Finance Corporation solely for exporting, but that you create this condition and give them six or eight million dollars and let them buy these farm products. It will benefit the laborers in the cities as much as agriculture.

Let me illustrate. Why did Henry Ford shut down? Because of the slump in farm prices. The unemployment in the cities is primarily due to the desperate situation of the farmers. It will benefit the laborer to have the Government start farm products to moving and take the risk.

The CHAIRMAN. Mr. Marsh, you say give them six or eight millions of dollars. Now, we are all in favor of that, but where are you going to get it?

Mr. MARSH. Just what benefit would it be to put in even a billion dollars on the Army and Navy?

The CHAIRMAN. You want to take it away from them; very well.

Mr. MARSH. Absolutely; yes. There is no earthly excuse for spending more than a few hundred million on the Army and Navy.

Mr. MCLAUGHLIN of Nebraska. Mr. Marsh, do you know how much the committees are cutting the estimates?

Mr. MARSH. I know they are going to try to cut them materially, but we know it is going to be a terribly big item, and we know that all of the munition manufacturers and the steel and iron plate manufacturers are very anxious for this big appropriation for the Army and Navy. That is a matter of record, is it not?

The CHAIRMAN. Now that they pay a big part of the expense, they are not as anxious as they were.

Mr. MARSH. They are not paying such an awful percentage; they have not since the war started. They got by with ten or fifteen billions in the aggregate over and above the taxes. I do not know where the national income is going. You saw the Supreme Court decision the other day?

The CHAIRMAN. Yes; but that act can be amended and they can be made to pay, as was intended under the act.

Mr. MARSH. I should like to be so much of an optimist, Congressman, as to believe that the Government will compel a rich corporation to pay back. I am not a betting man, but I would like to wager that they will not collect more than half of those back taxes.

We submit this proposal, which seems a little radical, perhaps. But why is it radical to ask the Government to do for really six and a half million farmers—because the influence will be very widespread if they advance six or seven or eight million dollars for export—for the Government to do this which will benefit the farmers, and city laborers as well, by stabilizing farm prices when you turned over a billion dollars to the railroads? Why is that socialistic, to advance

put in another five or six hundred million dollars, and if necessary lose it—it won't do that, it may have to postpone payment therefor—to rehabilitate agriculture by stabilizing practically all farm product in this way.

Start labor going again by increasing the purchasing power of the farmer and you will—well, it will help over there a good deal in those European countries. If one-tenth of what Mr. Hoover says is correct as to the poverty over there—and it is confirmed by everybody who has been over there—we will do the best thing we can for international relations; infinitely more than any league of nations will do, in my judgment, immediately, at least, if we simply see that these folks get the raw material for food and clothing. Of course they want cotton in Germany to start manufacturing.

Now, I hope you will not regard us as calamity howlers. I am going to repeat, that if Members of the Senate and the House would make publicly the same statements that they have made privately to me during the present week stocks would go pretty far down. I have talked with leaders, chairmen of committees, etc., and we are right up against it.

I must say this, that when you returned the railroads to their owners you started agriculture on the toboggan, and I do not think you can get it up very far on the upgrade again until you get back unified government operation and reduce the freight rates to what they were when you returned the roads, and if there is any deficit take it out of taxes.

A great many men who publicly oppose the Farmers' National Council agree privately with us on this program. And the situation is so extremely serious—I am not criticizing the position that anyone has taken, but it is what we are up against. Every one of you men who is in touch with his constituents, as you all are, is constantly getting letters from the country on this situation, saying What is Congress really going to do that will help the farmers within the next few days or weeks? And we make these suggestions.

I thank you very much, gentlemen, for your kindness.

The CHAIRMAN. We are grateful to you, Mr. Marsh.

(Thereupon, at 3.25 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m., Monday, January 10, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Monday, January 10, 1921.

The committee met at 10 o'clock a. m. pursuant to adjournment on Saturday, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. We will be very glad to hear from you, Mr. Sumners, this morning.

STATEMENT OF HON. HATTON W. SUMNERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS.

Mr. SUMNERS. Mr. Chairman and gentlemen of the committee, I understand that you are at this time considering bills pending to regulate future board exchanges. The bill which I desire to discuss before the committee, H. R. 15615, does not deal directly with the regulation of the exchanges, and if, in the judgment of any member of the committee there is any danger of confusion developing I would be glad to postpone my presentation until the committee shall have concluded its hearings on the other bills referred to.

The CHAIRMAN. Is there anyone here this morning who desires to be heard on futures trading? [After a pause.] I believe not. We will be glad to have you proceed, Mr. Sumners.

Mr. SUMNERS. I have just secured some copies of the bill to which I desire to direct attention and will be glad to have them distributed among the members of the committee. This is practically the same bill that the committee gave me a preliminary hearing on at the last session and is, in effect, the same bill which I have been introducing at each session of the Congress since I have been a Member of the House.

(The bill referred to is here printed in the record, as follows:)

A BILL Authorizing and directing the Secretary of Agriculture to establish a farm-produce exchange, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of Agriculture is hereby authorized and directed to establish, at as early date as practicable, a farm-produce exchange, with such branches thereof as may be necessary, in order to afford a medium through which the economic and systematic sale and distribution of such products may be effected.

In the operation of such exchange the Secretary of Agriculture, as far as practicable, shall cooperate with the several States and the various agencies therein which may be utilized, and may formulate plans and regulations for exchange of service between them and such exchange.

It shall be the duty of each of the departments of the Government to furnish the Secretary of Agriculture with such statistics and data as they may acquire which would be useful in the operation of such exchange and to render such other service in the sale and distribution of farm products through such exchange as it would be practicable to render.

The Secretary of Agriculture shall keep advised as nearly as practicable with the details of the quantity, quality, location, and price at which held of agricultural products and the volume and location of demand in the United States and abroad and the price at which such products may be sold, and shall make such information available to the producer and purchser of such products, and shall endeavor to bring about such system in the sale and distribution of such products as shall eliminate the waste and extremes in prices resulting from the present lack of system therein.

Those desiring to offer products for sale through such exchange may do so by grade or by sample delivered to such exchange, under such rules and regulations as the Secretary of Agriculture may prescribe, but all tenders of such products shall be for a definite quantity and quality.

The Secretary of Agriculture is authorized to require such deposits in money, bond, or other guarantee of compliance with the obligation to deliver according to tender or receive and pay according to offer as in his judgment may be necessary to insure compliance with the contracts made through such exchange.

When not otherwise provided for by the law, the Secretary of Agriculture is authorized to establish and promulgate standards and grades for commodities to be dealt in through said exchange and to establish such rules and regulations governing transactions through said exchange and the service rendered by said exchange as in his discretion may be deemed necessary.

Mr. TINCHER. Would you want your statement published as a part of the other hearings or would it be proper to have this published separately as a part of your bill?

Mr. SUMNERS. Yes; I think you ought not to confuse them, perhaps.

Mr. TINCHER. I suggest that, as Mr. Sumners has indicated that the testimony he gives is on his bill, H. R. 15615, and that his statement should be printed as a hearing on that bill and not be confused with the hearings on the other bill.

The CHAIRMAN. It will be printed separately if it is found advisable. Mr. Sumners, you may proceed.

Mr. SUMNERS. I recognize that you gentlemen have given a great deal of thought to all the economic problems of agriculture, and, therefore, I appear before the committee this morning, not so much to discuss analytically or in detail the bill which I have offered but to tender myself to give to the committee any information which I may be able to give and to discuss such phases of the matter as the committee may desire me to discuss.

Mr. TINCHER. I think your bill, Mr. Sumners, is the only bill pending before the committee in which there is an attempt to offer legislation pertaining to this important subject; that is, the subject of marketing. As far as I am concerned, I gave that subject a great deal of consideration at the last session of Congress. I want to ask have you taken the matter up with any organizations—for instance, the Committee of Seventeen—which claim that they are working on a marketing bill? Have you ever talked with any of them on your marketing bill?

Mr. SUMNERS. No. At least, I have only talked with one member of that committee, who called at my office to discuss the matter with me.

The CHAIRMAN. You may continue your statement.

Mr. SUMNERS. Gentlemen of the committee, this bill provides three things: First, for the standardization of agricultural commodities not otherwise standardized by law, which means, of course, the condensation of their description into trade terms. Second, for the establishment of a public market place through which these stand-

ardized commodities may be put in trading contact with the general market and with every market. Third, the exercise of the necessary supervision and control and the giving of the necessary guaranties to insure to purchasers and sellers that there will be integrity of transaction, the plan and purpose being to coordinate the National and State Departments of Agriculture and the various other governmental agencies which might be utilized into a unit through which to make possible under modern conditions the economic sale and distribution of agricultural products, the creation of reasonable stability in their price, and, in so far as my own purpose is concerned, to lay the foundation upon which can be constructed the proper rural credit system.

I beg to emphasize that this bill does not propose that Government shall enter a new field of activity, but it is proposed that Government in the field which it has long occupied shall conform its activities in that field to meet the new conditions which have developed there. Farmers are no longer producing primarily to feed and clothe their families from the products of the farm, and more than half of our population no longer depends upon the products of their respective farms for their food and clothing material.

Profit is now the nerve center of agriculture, and sale and distribution is agriculture's greatest and most difficult problem. The national and State departments of agriculture, therefore, which have been created for no other purpose than to help agriculture deal with its big problems should render the same sort of assistance to agriculture dealing with the problem of sale and distribution which is rendered in dealing with the problems of production and preservation of soil fertility. This bill proposes to establish a public market place, open to all. I desire to direct the attention of the committee to the fact that until within the past few decades the maintenance of open public market places, where universal-trading contact might be established among all the people, has been regarded as the chief function and duty of Government with regard to commerce.

This bill is not directed against middlemen as an institution. It would operate against the "toll-taking" power of middlemen. It would tend to destroy the possibility of their erecting a commercial blockade of profits demanded along the channels of distribution, which would not permit products wasting on the farm to pass to those who need them, and would pay a fair distribution charge plus a fair price for them. Individuals, cooperative groups, small merchants, small manufacturers, as well as the larger ones, would be given the same practical trading contact with the source of supply and with the general market, and there would be made possible the movement of agricultural commodities under prior sale from the point of concentration to the point of need in quantity and quality in accord with the demand for need, reducing the waste, the duplication of expenses in distribution, tending toward greater stability in prices by broadening the market, establishing democracy in business opportunity, and through a practical, open-to-all route around the privately controlled channels of distribution, tend automatically to hold the total of charges imposed to the basis of the reasonable, honest value of the service rendered by distributors, and would render greater assistance, I submit to the committee, to our laws against

monopoly than can be rendered by pestiferous bureaucratic control, toward which we seem to be rapidly moving. Besides, gentlemen, we must give to agriculture some compensatory advantage to balance against the advantage which industry holds by reason of the fact that when the products of the factory go to market, they go with cost, plus a profit, written into the initial sale price, whereas the products of the farm go to market under flood-tide movement and at a price fixed by the highest bidder, and they go, very largely, in a restricted market without regard to the cost of production, much less that cost plus a profit.

Mr. PURNELL. That is the real thing that will stimulate production, profit; isn't it?

Mr. SUMNERS. Yes. We people who live in the cities had just as well recognize that agriculture is compelled to bid against every industry in this country for the services of every man that labors in the field, and agriculture must have a profit which will enable it to hold enough of the general productive energy to produce the material for our food and clothing.

Mr. HULINGS. That is true.

Mr. SUMNERS. Agriculture can no longer be regarded as an inexhaustible commissary, useful only to feed business, and those of us who must have material for our food and clothing must recognize that more and more we must reach over every intervening profit, every charge, necessary and unnecessary, and pay to the farmers as much net profits as he can make in any other business. We must pay in the price given for the things which we eat the value of the commodities which rot in the fields after production, on sidetracks while being held in great concentration centers, and in congested markets. There isn't any question that the farmers are not receiving that profit now. It is absurd to hope to reduce the cost of living by reducing the profit of the farmer. He is quitting at the present profit. Those of us who live in the cities must pay him more, and we have the choice of paying him either by adding a greater price to that which we now pay or of making it possible for him to receive a part of that which now represents the spread between the price which the farmer receives and the price which we pay.

We are now in the midst of the greatest vocational and residential movement of all the ages, and there is nothing operating to stop it. In fact, it is gaining momentum with tremendous rapidity. Individuals make mistakes in changing their residence, but the mass movement is always under the influence of irresistible economic law toward the center of best opportunity.

Now, Mr. Chairman, with these general statements I want to invite members of the committee to direct my discussion to the particular phases of this matter which they would prefer to have me discuss. I am ready to attempt to answer any question which may be propounded to me by any member of the committee.

The CHAIRMAN. Very well.

Mr. SUMNERS. This bill does not propose to do for individuals or cooperative groups of farmers or merchants what they can do for themselves, but to bring the difficulties within their power to deal with them. It does not propose to extend governmental activity within the proper domain of private enterprise, but have govern-

ment begin to function where it is universally recognized to be the duty of government to function, at the border line of individual and private enterprise efficiency. Much of our radical legislation, later made necessary, has been due to the failure of government to recognize this duty in time. There are some definite, important economic problems connected with the business of agriculture which are of interest to all the people and which agriculture is not equipped to deal with.

The CHAIRMAN. What did you say about some economic problems; who is not able to deal with them?

Mr. SUMNERS. That agriculture is not able to deal with them.

The CHAIRMAN. Those engaged in it are not, do you mean?

Mr. SUMNERS. Yes, sir. When the great industrial revolution came to this country through the application of steam and electricity to the activities of men, great cities began to develop, with their great industries there, which organized both the producing and the selling end of their business. The people engaged in agriculture being scattered, many of those capable of leadership, drawn by the higher bid of industry away from agriculture, agriculture was not able to organize the selling end of its business, with the result that when agriculture comes to deal with industry its question is: What is your commodity worth? and the next question is: What is my commodity worth? This creates a definite economic disadvantage against agriculture, which makes it impossible for it to retain a proper percentage of the total productive energy of this country to make safe the food and clothing supply of our people. We have all sorts of "back to the farm" movements. You had just as well go down here to the Potomac River and carry its water up to Great Falls and pour it in the river again and expect it to stay there as to expect the people to stay in the country unless the country holds for them the same level of financial opportunity which the city offers.

I am not criticizing what the Department of Agriculture is doing. My suggestion is that it is not covering the whole situation. It is all right to teach the people how to raise "two blades of grass where one grew before," provided the two, when grown, will be worth more than the one would have been.

As I said before, profit is the nerve center of agriculture, and any policy which overlooks that fact works against itself. The functioning of the Department of Agriculture under modern conditions is not complete. What is proposed by this bill is that the Department of Agriculture, coordinated with the departments of agriculture of the several States, shall cover the whole situation.

Mr. PURNELL. If it will not interfere with you, I would like to ask a question.

Mr. SUMNERS. It would not interfere with me. I prefer to have you ask me questions.

Mr. PURNELL. You do not want to cripple or hinder, of course, in any degree the Department of Agriculture in its efforts to make "two blades of grass grow where one grew before?"

Mr. SUMNERS. Not at all.

Mr. PURNELL. I am interested in that particular thing myself.

Mr. SUMNERS. What I would like is to have the whole job done. In so far as the major part of our efforts is concerned, we are working

at the wrong end of this proposition. If we can assist in making i more profitable to farmers to "raise two blades of grass where on grew before," they will be a great deal more anxious to learn how t do it than they are now when the two blades are worth less than th one.

Mr. McLAUGHLIN of Michigan. May I make a suggestion?

Mr. SUMNERS. Yes.

Mr. McLAUGHLIN of Michigan. You are giving in detail the dis tressing conditions that exist in the country, and you are talking ver interestingly indeed, and you have thought it out scientifically an systematically; but nearly every one of us, I think, has reached th same conclusion and knows existing conditions.

Mr. SUMNERS. Yes.

Mr. McLAUGHLIN of Michigan. We are looking for a remedy You have one, and you ask us to provide for a way to try it. I ma say sincerely I enjoy listening to you speak of the causes which hav brought about existing conditions, but I think we all know that th conditions you mention exist. Our time is limited. I am afraid yo will take so long on stating the reasons for existing conditions tha you will not have the time you wish to talk about the remedy.

Mr. SUMNERS. I certainly do not desire to take unnecessary time o this phase of the subject.

Mr. McLAUGHLIN of Michigan. Then I suggest that you proceed a once, assuming that we know that the conditions exist about whic you are talking in detail, and tell us the remedy that you propose. I think all of us know about existing conditions and suppose we assum that to be a fact.

Mr. SUMNERS. I thank you very much, Mr. McLaughlin, for tha suggestion. I had that judgment about the matter when the dis cussion began. I have been led a little far afield by the question which my distinguished friend, Mr. Purnell, has asked. Besides, I really did desire in this discussion to deal somewhat with the funda mental propositions which are involved, and to get rid, if possible of any question as to the necessity for what is proposed by the bil which I have introduced, and any question as to the right and th duty of government to do that which it is proposed by this bil government shall do.

Mr. McLAUGHLIN of Michigan. May I make another suggestion?

Mr. SUMNERS. Certainly; I will thank you for it.

Mr. McLAUGHLIN of Michigan. I have read your bill and therei I see no reference to interstate commerce—shipments of farm product in interstate commerce. Is it your idea that the Department of Agri culture as a Federal function can properly go into this matter gen erally, regardless of the fact whether or not the products are intende for or ever reach interstate commerce?

Mr. SUMNERS. Yes. And may I say to you, Mr. McLaughlin, an to the other gentlemen of the committee, that you are now doin exactly what I would have you do. I want to discuss those phase of this matter upon which you desire my opinion, or whatever infor mation I may possess.

Mr. VOIGT. Of course, the feature of your bill is entirely voluntary

Mr. SUMNERS. Yes.

Mr. VOIGT. That is, no one is compelled to buy or sell under you proposed produce market?

Mr. SUMNERS. No. Nobody is compelled to enter these markets, and nobody is restrained from entering them. It is proposed that every community, every individual, for that matter, regardless of location and regardless of business, who has a shipping unit of a standardized commodity, may be put in trading contact with every market; and every purchaser, wherever located, may have trading access to every source of supply scattered throughout the country.

Under such a system distributors would, of course, continue to operate. They could operate more economically themselves through the advantages afforded by this marketing machinery. They could charge, and would charge, all their services would be economically worth, but they could not charge more, because the people would have a practical route around the privately controlled avenues of distribution, which would automatically tend to hold the total of the charges to the basis of the economic value of the service rendered. It would be possible to move these commodities from the point of first concentration to the point of need. There would be a saving in shortening the physical route of movement. It would not be necessary, as now, to hold great quantities in concentration points under deterioration and expense of refrigeration. We could reduce the food waste which now results in congested markets. Standardized commodities, such as cotton and grain, physically and morally protected, would be put in trading contact with all the markets of the world. The reservoirs for their holding would be at the points of first concentration. That is where they ought to be in order to protect against storm damage and in order to avoid the flood-tide movements which we now have. Do I make myself clear there?

Mr. HULINGS. Certainly.

Mr. SUMNERS. I hope you will do me the great favor, gentlemen of the committee, if I do not make myself clear on any point, to interrupt me. I am anxious to have you ask me questions and I will not consider them as interruptions.

We need a place accessible to all, where those who want to buy and those who want to sell actual commodities can get in trading contact with each other. There is no such place now. Therefore, we must have a rural produce exchange system. I want to suggest also, gentlemen, that a proper marketing system is the only foundation upon which we can build for the business of agriculture a structure of economic strength. The economic weakness of agriculture as a business is not only a peril to everyone engaged in that vocation, but it is a menace to all the interrelated businesses of the country which make up our entire economic and industrial organization.

The truth of this statement is being demonstrated now in the most forceful sort of way. Agriculture is the point where the break came, because it was the weakest point under the pressure of our present situation. The other businesses, of which agriculture is the basic one, came down with agriculture, and all those engaged in the other interrelated and interdependent businesses of this country are suffering because of that break. We must get away from and keep away from the idea that legislation dealing directly with agriculture is of concern only to agriculture. This bill which I have introduced is for the whole people.

Mr. HULINGS. Isn't that what they say now about the grain market?

Mr. SUMNERS. I am trying, for the present at least, to stay clear

of the rest of the pending bills dealing with the future board produce markets. The plan of my bill, and it is philosophy, if it has any, is somewhat different from the bills dealing with the present grain exchanges. My bill has for its object the creation of the possibility of commercial control very largely through the operation of the natural laws of commerce. We have a good deal of more or less loose talk about the "law of supply and demand," as to what that law will do, etc. The law of supply and demand is not an all-powerful, fool-proof regulator and protector of people against the penalties which that law has the power to impose and by which it finally compels the observance of its provisions. A good many of us here are lawyers, and we know that the force of a law lies in its penalty. The object of the legislation which I propose is to give to that law a chance to control and to protect instead of leaving us where we are now, subject to the penalties of that law, because we violate its provisions in the method through which we sell and distribute our agricultural commodities. We must open up the opportunities for free commercial contact and give the laws of commerce an opportunity to direct themselves, not against the middleman as an institution but against his "toll-taking" power, against the commercial blockade which the multiplicity of high profits sometimes establish against the movement of commodities wasting in the field, against the long haphazard physical movement of commodities.

Mr. WILSON. How would this bill rectify that condition?

Mr. SUMNERS. It would rectify it in this way. Suppose I lived with you in your community, and we as members of a cooperative group had, either now or in immediate prospect, a shipping unit of a given standardized commodity. We could list that unit for sale at a place where those who desired that sort of commodity for use would know that they could get in trading contact with us and all others offering the same commodity for sale, and when the sale was made the commodity would move under prior sale from our community to the community of the purchaser, instead of going out into the dark, as now, to search among the markets of the country for the purchaser.

Mr. WILSON. The reason I make that inquiry is this: Chicago is surrounded by territory that produces and offers at certain seasons of the year a lot of produce that is perishable, in Michigan, we will say and there is a greater amount than can be consumed in Chicago and surrounding communities. A great quantity of it is often sent to Chicago in such abundance that it can not be disposed of there. Of course, as you say, it will rot on the railroad tracks. I just wondered if you had any idea how that might be avoided.

Mr. SUMNERS. One of the objects of this bill is to avoid exactly that thing. That surplus ought never to have gone into Chicago. It should not have gone to a place where it was not needed. When it moved from the place of first concentration it should have moved under prior sale and in response to an immediate or prospective demand for its use. In other words, the fact of need should have been established before the movement began.

Instead of finding out that it was not needed after it had gone to its destination, if it had moved under prior sale in response to demand emanating from its destination, from those who knew the conditions there, and who controlled the market there, the quantity

movement at a given time would not have created congestion, and the surplus which resulted in congestion and which resulted in a loss to somebody could have been sent to some place where it was needed. Somewhere down the line the farmers who lose from inability to sell their products in a congested market must be recouped by those who purchase from them. These commodities ought not to have been shipped to Chicago.

Mr. WILSON. Then, it would rot on the farms in Michigan.

Mr. SUMNERS. Well, answering that suggestion, of course, if it must rot anywhere, that is the best place for it to rot. At least the freight charges could be saved if Chicago was the only place to which it could have been shipped——

Mr. WILSON (interposing). Oh, no; they can send it elsewhere at times.

Mr. SUMNERS. My judgment is that somewhere most of the farm commodities are needed, and from the public standpoint it is important, if possible, to have the people of this country well nourished. It is a shame to have things rot which people need. If the proper machinery for ascertaining where demand is and where production is, and putting demand and production into the possibilities of direct trading, so that commodities may move from the point of concentration to the point of need without unnecessary intervening charges, without the present food waste through deterioration, and with no more than the necessary number and total of intervening profits, much of that which now wastes on the farms could go from the farmers to those who need them at a fair price and would pay a reasonable distribution charge.

Mr. VOIGT. I would like to relate a little incident right there which may be of interest. In 1918 I happened to be in Utica, N. Y. Walking around I saw some rutabaga turnips exposed for sale at a price which struck me as being awful high. I asked the merchant about it and he laughed and told me that some days before they had an oversupply and had to ship to New York. That recently the local supply had been exhausted and it became necessary to order some from New York City, and that, curious enough, they had gotten back some of the same turnips they had shipped to New York City.

Mr. SUMNERS. That illustrates what I am talking about. This bill is intended to prevent just that sort of thing. The people who bought those turnips had to pay the extra transportation charges to New York City, one or more profits in New York City, the transportation charge back to Utica, and possibly one or more profits there. This all resulted from the present absurd method of sale and distribution. In the first instance more turnips went to Utica than should have gone there. That congestion broke the Utica market, which, in turn, stopped the shipment of turnips to that market, and that, in turn, resulted in the necessity of shipping back from New York because the usual current movement into Utica was stopped by the low prices during the time of congestion.

Mr. MCLAUGHLIN of Michigan. The first section of your bill says: "The Secretary of Agriculture is authorized to establish a farm-produce exchange, with such branches thereof as may be necessary." Now, that means, I presume, a central market exchange. Where would you have that and what kind of a thing would it be?

Mr. WILSON. And how many men would it employ, and what wil be the expense of it to the Government?

Mr. SUMNERS. Well, I will be candid with you gentlemen, an give it to you as my opinion that no human being on earth coul answer that question with any certainty in his own conscience o I imagine, with any assurance that whoever he made the statemen to would think he knew what he was talking about.

The CHAIRMAN. What is your idea?

Mr. SUMNERS. My idea as to the situation is that you would tak much of the present organization of the Department of Agricultur and work out a system of coordination with the State departments o agriculture. I think you would find that the disposition of the Stat departments of agriculture and public opinion in the several State would bring them into accord with the purpose to coordinate. Th National Department of Agriculture and the departments of agricul ture of the several States have their agents scattered over the entir country now. Then, connect up this coordinated, strictly goverr mental machinery with the cooperative warehouse systems and co operative grain elevator systems, etc. The storage facilities would b supplied by the individuals of the several States with such assistanc as would represent the judgment of public opinion as to the publi interest involved, whether much, little, or none. I believe we coul reduce the bulletin-printing, speech-making activities of the Depar ment of Agriculture having to do directly with production, an change the business of the various field agents of the Department o Agriculture so that they could materially help in applying standard and grades promulgated and in reducing the probabilities of frau and mistake originating at the shipping points throughout the cour try. I do think, of course, that you would have to have a central ad ministrative head and organization. With regard to such commod ties as grain and cotton, you clearly would have to have branch located somewhere—probably with regard to cotton a branch in th center of the cotton-growing territory, and with regard to grain, ye might have to have two or three centers, one in the North, one in th West, one in the Central North, and the other on this side of the cont nent. The central idea about the plan I have is that instead of sen ing so many people out over the country, we would establish a publ place, a market place, with the necessary affiliated market places. do not mean a bureau submerged in the Department of Agricultur but I mean a market place and a market system on the hilltops of com merce, so that the people of the country who have commodities fo sale would busy themselves in a definite degree to produce to me the requirements as to shipping, in order to have the advantage o selling their commodities through this system. I would have th departments of agriculture recognize in a practical sort of way an in a helpful sort of way that profit is now the nerve-center of agr culture.

I want to add, gentlemen of the committee, that I do not belie that government ought to do for the individual or cooperative grou what he or they can do for themselves, but I am sure that gover ment ought to bring this difficulty within the reach of their abili to deal with it. In the very nature of things, much must be left the good judgment and discretion of whoever shall have the respon bility of putting into operation the marketing machinery directed

be established by this bill. I believe the bill outlines a general course which should be pursued. I have explored as best I could the territory into which this machinery would have to extend itself and how it would be required to function, and I have discovered nothing there to indicate to me that insurmountable difficulty may be expected.

As to what branches are to be established and where they are to be located, and as to what personnel will be required, I would no more undertake to answer that than I would have undertaken to answer, had the question been asked me when the bill creating the Department of Agriculture was under consideration, what would be the activities and the personnel of the Department of Agriculture when the year 1921 came around.

The CHAIRMAN. Well, I did not ask that question.

Mr. SUMNERS. I beg your pardon; I misunderstood.

The CHAIRMAN. This bill assumes the location of a produce exchange with branches. Perhaps you mean an exchange for each of the great staple commodities, and there might be one of these produce exchanges for cotton, and another for wheat, and another for corn, and perhaps another for the more perishable products.

Mr. SUMNERS. Yes; that is true.

The CHAIRMAN. This contemplates a location at some place of a farm produce exchange.

Mr. SUMNERS. Yes; and I think it clearly would have to have an administrative head for the whole system.

The CHAIRMAN. And where would you put that, and where should it be?

Mr. SUMNERS. Of course, there again I would only be able to hazard a guess. The bill does not undertake to locate it.

The CHAIRMAN. What is your idea?

Mr. SUMNERS. Of course, if the Secretary of Agriculture happens to be a man of good, practical sense, this thing can be put over; if he is not such a man or does not put the responsibility upon such a man, it can not be done, that is all. I believe that this bill goes as far as Congress should go in directing what it wants to have done, and in indicating, in so far as the big outlines are concerned, how it desires to have it done. Too much direction, too much detail in legislation in a matter of this sort might possibly hamper discretion at a vital point where under the development of some emergency, which can not now be forseen, it would be necessary that that discretion be exercised. I believe there should be one central place through which European and other buyers throughout the world could get into trading contact with agricultural commodities wherever produced. I am quite certain it would be necessary to have branches properly located with regard to the producing areas, and no doubt it would be found practicable for many transactions, perhaps for most transactions, to be handled directly through these branches, proper report being made to the central organization. I do not profess to know, nor do I presume to guess, what necessity, in the judgment of the Secretary of Agriculture, would determine ought to be done, but there is no more uncertainty involved in this situation and no more is left to be determined by experience than with regard to any other governmental venture, nor with regard to any business venture of large proportions. It is a new problem, a new thing, which has come through the evolution of time to challenge the genius of this genera-

tion, and while we can get some suggestions and some counsel fro the experience of the past, as a matter of fact we must deal with th largely upon the responsibility of our own judgment and constructi and administrative ability.

They say that "necessity is the mother of invention." I think would be equally true to say that necessity always gives birth to t invention required to deal with that necessity. In my observatio and in my own experience I have found but few things to be do which could not be done. I think no one can question the fact that better method of marketing agricultural products is required, and respectfully submit to the judgment of you gentlemen that a prop method of marketing agricultural products can not be developed e cept through some such machinery as this bill provides.

Mr. HULINGS. After it was established, say, as to grain, wheat, i what respect would it differ from what has already been establishe in Chicago, where people who have grain to sell send it?

Mr. SUMNERS. There would be this difference: Suppose an el vator had 10,000 bushels each of No. 1, No. 2, No. 3, and No. 4 whea That wheat could be listed for sale by specific grade instead of b basic grade. There would be no "hedging" or gambling in th proposition. The difference would be that this would be a pla where the actual commodity would be sold under its descriptiv grade, and those who wanted to grind wheat into flour could purchas the actual wheat and ship it directly from the elevator by the mo direct and cheapest route of physical movement, and could ship from this elevator as it was required for use. I think it is rathe important that under the plan which I have suggested the storag facilities, the reservoirs where the surplus would be held against th time for need, would probably be mainly at the points of first co centration. It is necessary, as I have suggested, to have them the in order to avoid storm damage, and I believe that these tremendou flood-tide movements—what are known as crop-movement seasons—would disappear.

Mr. TINCHER. What do you say about the present practices o gambling in wheat and cotton, dealing in futures in connection wit these commodities?

Mr. SUMNERS. Would you mind waiting until I cover the thir proposition contained in my bill?

Mr. TINCHER. I do not want to press my question, but I am in terested in it, and only want to get your views.

Mr. SUMNERS. I will answer your question now if you prefer.

Mr. TINCHER. Well, just answer it in your own time.

Mr. SUMNERS. Any other questions on the two propositions, gentl men of the committee, which have been under discussion? If not, will pass on to the third proposition.

Mr. VOIGT. Do you think that the Government could establish more perfect market place for grain and cotton than exists no through the already existing grain and cotton exchanges?

Mr. SUMNERS. Do you mean as to location or method?

Mr. VOIGT. Either way.

Mr. SUMNERS. Well, let us divide the proposition. Do you mea first, whether the exchanges are properly located now?

Mr. VOIGT. Well, take the matter of location. There are grain e changes, for instance, located all over the country. A farmer wh

has grain for sale can take his morning newspaper and find out immediately what the price is, or the approximate price. What more information could the Government furnish to that man?

Mr. SUMNERS. It would furnish him a market place, not merely information, but a market place.

Mr. VOIGT. It is a market place.

Mr. SUMNERS. This is what I mean: In your community suppose you have a group of farmers who have 10,000 bushels of wheat for sale. I mean to furnish them a market place where that commodity could be listed for sale, a place where every buyer in the world would know that he could get into trading contact with it, and that when he bought it he would get exactly what it purported to be—wheat of a specific grade—and that his transaction would be physically and morally protected, and that when the farmer sold it he would know that he had sold to the best available bid in the world.

Mr. VOIGT. Let us stop right there for a moment. Take the farmer in your community, or the man who has the wheat or corn for sale. He could look at his morning paper and know what the approximate price is. If he is willing to sell at that price, he can take his grain to town and there he will find several grain buyers who are, if they are dealing legitimately, men who are competing with each other in bidding on that grain. He has no trouble getting rid of that grain. I think your bill would do a world of good on other commodities than grain or cotton, which two commodities as to their distribution are perfectly provided for by these exchanges, are they not?

Mr. SUMNERS. I can discuss cotton with more assurance than grain, because I come from a cotton country, and I will yield to your judgment as to whether or not your people have sufficient machinery through which their grain may be sold.

Mr. VOIGT. I will be glad to hear from you about cotton.

Mr. SUMNERS. With regard to cotton that is not true. There is not a public, open, universally accessible cotton market in the United States where cotton may be sold by specific grade, and the purchaser, wherever he may live—in Tokyo, Havre, or Liverpool—will know that he gets what he wants and that the commodity will come to him with only the transportation charges added, which are necessary in its ordinary commercial movement.

Mr. VOIGT. That is in reference to the cotton-futures act?

Mr. SUMNERS. I am discussing the situation as it is now. I take this position and I am supported by the demonstrated judgment of men generally in all the periods of governmental activity, that the maintenance of a public market place is a public duty and a public function, and that we never can have what we ought to have, for the sale of the actual commodities of this country through a market place privately owned, where the rules and regulations of transactions are made by those who are interested as merchants operating the market place.

I believe that the market place should be provided for the people who produce and the people who consume, and let the merchants act as distributors, serving producers and consumers, but compelled by the operation of economic law, by the influence of the possibilities of direct trading, to hold the total of their intervening profits to the

basis of the value of the service rendered. Permit the merchants to buy and to sell in this same market place. It would enable them to make the same net profits at a reduced total charge. In my judgment they must either submit to this or public opinion, the pressure of which each of you gentlemen know is increasing day by day with tremendous rapidity, is going to force Government to undertake to regulate arbitrarily the profits of private business and, to a definite degree, the internal management of private businesses, through armies of employees, pestering and handicapping individual effort and enterprise, and, in my judgment, giving no substantial benefit for the millions of dollars taken from the Public Treasury. If we can succeed in giving to the natural laws of commerce the power to control, which they are capable of exercising, we will not have to depend so much upon antitrust laws, antiprofiteering laws, and bureaucratic administration. At least, I want us to give to the laws of God Almighty a chance to operate freely upon our economic and commercial difficulties before we embark upon the policy of bureaucratic administration, toward which public opinion is rapidly driving our governmental policy.

Mr. VOIGT. You have spent some time this morning with reference to lack of knowledge of location of a given commodity. That does not apply to grain and cotton, does it?

Mr. SUMNERS. It does not apply to cotton in so far as its location is concerned, but it does apply in so far as the location of any place through which trading contact may be established with exactly the grade of cotton which an individual may desire to purchase.

Mr. VOIGT. Well, if I were a spinner and I needed some actual cotton, I suppose I would be in business relation with some people in New Orleans with whom I had been transacting business, and that I would inquire of those people.

Mr. SUMNERS. Yes, sir; you could buy from the cotton merchants. But the point I make is that there is no great cotton market known to producers and to purchasers throughout the world through which the actual cotton required for actual use may be bought, and in which the people who produce this commodity may have the privilege of offering their commodities for sale. Such a place is necessary in order to give the greatest breadth of market, and therefore, the greatest stability to the market.

Now, gentlemen of the committee, there is another thing in regard to cotton——

Mr. VOIGT (interposing). Let me stop you right there. Talking about breadth of market, isn't every bale of cotton, so-called spot cotton, that is offered for sale to-day in some way or other listed on some of the cotton exchanges now in existence?

Mr. SUMNERS. It is not. Not one single bale of it is so listed. I am speaking of the great cotton exchanges in this country. I do not, of course, speak of the buildings in which cotton merchants have their offices, and in which it is probable that cotton may be listed to facilitate trades among themselves. There is not a single bale of spot cotton that moves in the ordinary course of commercial transactions these so-called great cotton exchanges. That statement may not be entirely exact, but it is approximately so. What delivery does occur on the contracts is purely incidental to the "hedging" and to the gambling transactions made through these exchanges.

Mr. VOIGT. Well, do you mean to say that a man can not go on to the New Orleans Cotton Exchange and buy cotton?

Mr. SUMNERS. I mean to say that on the contracts which are made on either of the cotton exchanges, the man who asks for delivery would have no idea in advance, if he be a spinner, whether he will get one single bale of cotton which he can spin.

Mr. VOIGT. Well, that is a question of grade.

Mr. SUMNERS. Yes; it is a fact, and I am just telling you about the facts.

Mr. VOIGT. Let me ask you this question: Suppose the present law were amended so as to provide for a man making a contract to deliver a specific grade of cotton having to deliver that particular grade, and that he could not deliver anything else in satisfaction of the contract, couldn't you then go on the New Orleans or the New York cotton market and buy all the cotton that you wanted or that is available?

Mr. SUMNERS. Of course you could. But on these exchanges cotton is not offered by specific grade.

Mr. JACOWAY. Let me ask a question right here by way of illustration: Suppose a spinner this morning wants 2,000 bales of spot cotton to weave into cloth. In order to get those 2,000 bales he might have to go through two or three hundred agencies to get it, might he not?

Mr. SUMNERS. I wouldn't like to say how many agents.

Mr. JACOWAY. Well, he would, assuming he was dealing in Texas and Arkansas and Tennessee, in order to get that specific grade and that number of bales, he might have to go through that many agencies; whereas, if your market proposition were in effect he would have a place to go and get the cotton he wants, wouldn't he?

Mr. SUMNERS. Of course.

Mr. VOIGT. I do not understand what you mean about the cotton market.

Mr. SUMNERS. They have a basic grade upon which cotton is sold. In this explanation I will not refer to the grades, but to figures representing them. Middling cotton is the basis. We will call that No. 1, and the grades above No. 1 plus, No. 2 plus, No. 3 plus, and No. 4 plus, and the grades below No. 1 minus, No. 2 minus, No. 3 minus, and No. 4 minus. Now, No. 1 is the grade which you are trading in. That is what you buy. You ask for delivery. You have a mill that will use No. 1, No. 1 plus, and No. 1 minus, the three middle grades. The person who sold you that contract is privileged to deliver you the entire quantity from the grades outside of the grades which you can use. In so far as that contract is concerned, it would be just as valuable from the standpoint of use, if it were to provide that wool or hemp could also be delivered because you could not, in your mill, any more spin what might be delivered to you than you could spin wool or hemp.

Mr. HULINGS. But under your regulations they are required to take it with a differential?

Mr. SUMNERS. Yes; under the present law on the basis of commercial difference, but the spinner does not want to buy cotton which he must sell again; he wants to buy cotton to spin.

Mr. VOIGT. If the cotton futures act were amended, of cours that would be obviated?

Mr. SUMNERS. If the cotton futures act were amended so as t compel delivery of specific grades, and the future board exchange would continue to operate, it would be possible to make contract and receive exactly what was wanted. It would not be economicall possible, however, as applied to the entire cotton crop unless de livery was effected at the point of first concentration.

Mr. VOIGT. Say a man makes a contract for delivery of a specifi grade. Is he required to deliver that grade of cotton?

Mr. HULINGS. No.

Mr. VOIGT. Then does not the New Orleans Cotton Exchange giv you full opportunity to dispose of cotton?

Mr. SUMNERS. Not spot cotton. The New Orleans Cotton Ex change would not prevent one from selling cotton which he can no use. But I want to make this additional statement. No institutio can function properly as an exchange in the distribution of an agri cultural commodity, produced in a large area and moving alon many avenues in the commercial course of its distribution, whic requires on transactions made through that institution that in orde for delivery to be effected the commodity must be pulled out of th natural line of its movement into the place where the exchange i located. Is there any question about that?

Mr. PURNELL. I do not quite get that point.

Mr. SUMNERS. I say, no institution purporting to be an exchang can function as an exchange through which a commodity may b economically sold and distributed, which requires that commodity produced in a wide area, like cotton and grain, moving along man avenues, in the normal course of its commercial distribution, to b drawn out of the course of its natural movement into the place wher the exchange is located in order to be delivered. For instance, tak the New York Cotton Exchange, and suppose I am a mill owner i North Carolina, and suppose the sales through the New York Cotto Exchange are made on specific grades, and every other requiremen for economic commercial transaction is met, except that in order fo delivery to be consummated it is necessary for the cotton to mov from the Southern States to New York, be unloaded, drayed to on of the affiliated warehouses, graded, certified, and then shipped bac down to North Carolina.

We use Oklahoma coal very largely in Texas. Do you think that coal exchange located in Chicago could function in the distributio of coal needed in my section if it were required that the coal shoul be shipped from Oklahoma to Chicago, unloaded in a yard, the reloaded and shipped back down through Oklahoma into Texas The actual commodity can not cross this economic barrier. As fa as the cotton exchanges are concerned, there is no effort to make ther function in the sale and delivery of the actual commodity. Thes gentlemen sitting here representing the exchanges will tell you tha They must tell you that. These gentlemen sitting here will tell yo that that is not what it is; they do not try to have it that.

Mr. MCLAUGHLIN of Michigan. What would you have the Gov ernment do? Suppose it established a cotton exchange, if this bil of yours should become a law, at New Orleans. You would hav somebody outside, in the sections of the country where cotton i

raised, to communicate with that Government office at New Orleans, and tell that office what amount of cotton is on hand and can be shipped if wanted; so much middling cotton, and so much middling plus 1, and so on. Then the Government would find out somebody who wanted that kind of cotton, and would communicate with this back town in the country and have that stuff shipped directly from that point to the place of residence of the purchaser. Is that the idea, or something like that?

Mr. SUMNERS. My idea would be for the Government to establish the market place and instead of the Government having to go out and make inquiry of those who wanted to buy or sell, that those who want to buy or sell would communicate their offerings to the place where the market is located, similar in that respect to the principle on which your grain exchanges are now run.

For instance, take the Chicago Grain Exchange. I can not speak with exact knowledge with regard to grain exchanges, though I do have some general knowledge of them, but I understand that people who have grain to sell communicate their desires to sell to those who conduct the operations on the floor of the exchange. And those who desire to buy do the same thing.

In the old days the little community market was a meeting place of folks who wanted to buy, who knew if they went there they could find what they wanted to buy, and of those who had the commodities to sell, knowing they could sell them there to those who wanted to buy.

Mr. MCLAUGHLIN of Michigan. I will change my question and ask, suppose the Government establishes a cotton exchange at New Orleans, under your proposed bill, what is it your idea that that exchange would do? Is it that the producers would communicate with the exchange and list their cotton for sale by grades?

Mr. SUMNERS. Yes, sir; and merchants also; anybody.

Mr. MCLAUGHLIN of Michigan. And those who wished to buy cotton, either from any place in this country or from abroad, would list with that exchange their desires to buy; and if the Government had on its files their offers to sell the kind of cotton that the purchasers wished the Government would give to the persons in a back town opportunity to ship their cotton directly to the purchaser. Is that the idea?

Mr. SUMNERS. That is the basis of the idea; yes, sir. That is substantially the idea.

Mr. MCLAUGHLIN of Michigan. And a man in the back country would ship the grade that the party wanted?

Mr. SUMNERS. Yes, sir.

Mr. MCLAUGHLIN of Michigan. In the first place, wouldn't the Government have to do something to ascertain whether the man who raised the cotton and offered it for sale was properly grading his cotton? Otherwise he might ship it directly from his farm or town or little association in his town, where a good deal of it might have been collected together, to the purchaser 1,000 miles away, and when the cotton arrived at destination it might be found not to be the kind of stuff that the purchaser thought he was buying.

Mr. LEE. A bonded warehouse would correct that?

Mr. SUMNERS. Yes, sir. Mr. Lee has just suggested that the bonded warehouses have their classes, and those warehouses guarantee the

grades. The bill carries full power on that point. There are no insurmountable difficulties there.

Mr. McLAUGHLIN of Michigan. Then the bonded warehouse, in the first place, would communicate with the Government office in New Orleans and furnish that office the different grades of cotton it had for sale, and the Government office, having received a communication from a cotton-mill owner in North Carolina, for instance, would tell him that he could buy the cotton he wanted from a Government certified warehouse at such and such a place in Texas, and shipment would be made from that warehouse to the mill in North Carolina; is that the idea?

Mr. SUMNERS. That is not correct as to details but is the substance of the idea.

Mr. McLAUGHLIN of Michigan. What about price? How would the price be fixed?

Mr. SUMNERS. The price would be fixed very much as the price of other commodities that are now sold on exchanges or in public markets are fixed—by competitive offerings and competitive bidding. Of course, if the farmer who raises a given commodity should transfer that commodity to a central selling agency the method of sale, as to competitive offerings, might be different. But this bill—and it is important to bear that in mind—does not deal with price. It proposes market places and a marketing system.

Mr. McLAUGHLIN of Michigan. Will you be a little more specific? How do they get at a price?

Mr. SUMNERS. In general, this is about how it would happen: Suppose that an individual or an association in Texas had 10,000 bales of cotton for sale——

Mr. McLAUGHLIN of Michigan (interposing). At one of these warehouses?

Mr. SUMNERS. Yes, sir. They would list that cotton for sale, and the cotton-mill owner, merchants, or whoever else wanted to, would bid for it. That is one side. If they had determined what price they would take for the cotton——

Mr. McLAUGHLIN of Michigan (interposing). Who would bid for it?

Mr. SUMNERS. Anybody who wanted to buy it.

Mr. McLAUGHLIN of Michigan. This mill owner in North Carolina?

Mr. SUMNERS. Anybody. Tokyo, Liverpool, or Havre, or anywhere else in the world which might be in the market for cotton and make a bid.

Mr. McLAUGHLIN of Michigan. And those bids would come into the Government office?

Mr. SUMNERS. Yes, sir. That is the whole proposition.

Mr. McLAUGHLIN of Michigan. The Government then would accept the highest bid, I suppose, and ask the Texas warehouseman to send on the cotton?

Mr. SUMNERS. When 10,000 bales of cotton at a given place would be tendered for sale subject to the highest bid, it would be sold at the highest bid. On the other hand, suppose people who owned cotton would determine that they would take 20 cents a pound for it——

Mr. McLAUGHLIN of Michigan (interposing). Suppose they do that, wouldn't they say to the Government office in New Orleans, "We have 10,000 bales of cotton we will sell for 20 cents a pound"?

Mr. SUMNERS. Yes. If they offer cotton for sale to the highest bidder, then it would be determined by the competitive bidding of buyers. On the other hand, if they offer cotton for sale at 20 cents a pound, and other sellers of cotton should offer at a given price, then the sale would be determined by competitive offerings of buyers. And still another way, different more in form than substance, if they should transfer the title and the selling power of their cotton to a central selling agency——

Mr. MCLAUGHLIN of Michigan (interposing). Do you mean transfer the cotton to the Government?

Mr. SUMNERS. Oh, no. I say if the cotton farmers should themselves, as an organization, delegate the selling of their cotton to a central selling agency—I am talking to you about the three possible methods of selling cotton: (1) By competitive bids, (2) competitive offerings for sale, and (3) the central selling agency plan. The same commercial considerations would operate very largely upon each of these plans.

Mr. MCLAUGHLIN of Michigan. Suppose there are several sellers, men who want to sell cotton, and each one named a definite price at which he wanted to sell his cotton, and the Government had a number of requests to buy cotton, at which price would the Government sell?

Mr. SUMNERS. The lowest price would go first to the first offer to buy at that price, I suppose.

Mr. MCLAUGHLIN of Michigan. Then the other people would say to the Government, "You did not get the best price you could have got for my cotton. I offered to sell my cotton for 19 cents a pound, but you could have gotten 20 cents a pound.

Mr. SUMNERS. Well, they would have to argue that out. If they offered to take 19 cents a pound for the cotton and got it, they would not have any great kick about it.

Mr. MCLAUGHLIN of Michigan. Well, I do not know about that.

Mr. SUMNERS. I do not suggest for a minute that this method will not have its difficulties. I think it will always have some of the difficulties which any other method of selling has.

Mr. PURNELL. It seems to me your conclusions are based upon the proposition that there will be a demand for all the cotton that is listed. Suppose 20,000 bales of cotton are listed by a given central market, and there is only a demand for 10,000 bales, will the power to divide up or apportion that purchase or to specify what cotton is applied on that sale be vested in your proposed central selling agency?

Mr. SUMNERS. In the absence of some arrangement among sellers, I imagine the custom of first offered, first sold, where no question of price obtains, would control. That detail would be worked out.

Mr. PURNELL. Pursuing that idea: Suppose you had 50 bales on hand or listed from some small producer, who is willing to sacrifice his product in order to get ready money to meet his obligations, how are you going to handle a situation of that kind? If in the circumstances he is willing to take 2 or 3 cents less a pound for his product, what will you do, let them sell it at that price?

Mr. SUMNERS. I presume so, of course.

Mr. PURNELL. That goes back to the proposition of who is to fix the price.

Mr. SUMNERS. I hope you gentlemen will understand that the only thing this bill proposes to do is to establish a market place and market contact, and guard the integrity of transactions. The people will have to work out the problems; I do not think the Government could or should go one single step farther than that.

Mr. JACOWAY. Isn't the whole object of your bill to establish what you might call a mammoth clearing house, where the buyer may go and the seller may meet the buyer?

Mr. SUMNERS. Yes, sir; it is. My plan is to establish a market place where contact may be brought about between buyer and seller, and they may be made confident to trade with each other, neither trader being present and the commodity not being subject to inspection by the buyer.

Mr. PURNELL. I think the gentleman is not trying to set the Government up in any business of control over production.

Mr. SUMNERS. Oh, no; not at all. I do not think there could be any question about that from a reading of the bill.

Mr. PURNELL. I just wanted that made clear.

Mr. SUMNERS. Yes, sir.

Mr. WILSON. You are making the Government an agent?

Mr. SUMNERS. No, sir; not primarily.

Mr. PURNELL. The words "clearing house" sound better.

Mr. SUMNERS. My purpose is to establish a market place, with possibilities of trading contact between buyer and seller, and the exercise of intermediatory supervision and control where necessary, such as to make entire strangers confident in trading with each other, in trading in a commodity which the buyer has never seen. Integrity could be made sure through the medium of bonded warehouses and elevators or by requiring the purchaser to put up a bond that he will pay, according to offer, or the seller that he will deliver what he promises to deliver. There is no reasonable probability of fraud under this plan. But you can not get all the difficulties out of anything on earth. This is no more than any other plan or place of bringing buyer and seller together, under proper supervision.

Mr. VOIGT. Suppose this cotton futures act should be amended to provide that only the grade of cotton sold might be delivered in fulfillment of a contract; and also cut out gambling on the exchanges, so that only spot cotton might be sold. Suppose you then provide that all tenders of cotton on, say, the New Orleans or the New York Cotton Exchange should be with the understanding that freight is allowed to a certain point; for instance, that the man in Texas selling cotton would then have to figure freight paid as far as New Orleans. Any man living in some other part of the country would not have to ship that cotton to New Orleans, but he would have that much freight allowed, and it would go on the contract from point of production to point of consumption. Wouldn't you then have perfect machinery for the distribution of cotton?

Mr. SUMNERS. In the first place, you have supposed a thing you will never get, and you may ask gentlemen representing the New Orleans and New York Cotton Exchanges if that is not true. You are supposing a thing you ought not to depend upon ever having, and you ask those gentlemen who represent the grain exchanges and the

gentlemen representing the New York and New Orleans Cotton Exchanges if that is not so.

The CHAIRMAN. I did not get your answer.

Mr. SUMNERS. Mr. Voigt's question assumes that it would be possible to so legislate as to have these future boards, these cotton exchanges, provide that nothing except sales of spot cotton shall be transacted through their institutions—is that right? And then it shall be for a specific grade, and delivery shall be from the concentration point, along the line of its normal commercial movement; is that what you assume?

Mr. VOIGT. Yes, sir.

Mr. SUMNERS. I will withdraw this bill immediately if you can get anything like that going.

The CHAIRMAN. I did not understand how you limited it—to spots or did you permit future sales?

Mr. SUMNERS. Mr. Voigt wants delivery on the contract.

The CHAIRMAN. Your suggestion is to limit the tenderable grades on the contract?

Mr. SUMNERS. That is Mr. Voigt's suggestion.

Mr. VOIGT. You might have two provisions: (1) That a contract would be drawn providing for delivery of the exact grade for which the contract is made; and then (2) have another form of contract in which it is provided that a man may be compelled to accept certain higher or lower grades. Personally I do not see why that would not work out.

Mr. VOIGT. Let me ask you a question. You probably know something about the history of the New Orleans Cotton Exchange. If you were to trace back the history of that exchange to its first inception, wouldn't you find that it was a place where only spot cotton was dealt in?

Mr. SUMNERS. Yes. I do not recall when, with reference to the organization of the New York Cotton Exchange, the New Orleans Cotton Exchange was organized, but the exchanges began as places where the actual commodity was dealt in. Then there grew up a custom of selling the actual commodity for future delivery, delivery being actually contemplated. It was developed first by a man in England. And then there grew up the custom, fostered by rules adopted under which they dealt merely in futures delivery not being intended.

You see, the gentlemen who operate those exchanges operate them for profit. This is rather important—they are operated for profit. They make just as much commission on a transaction when no delivery is contemplated as they could on a transaction where delivery results.

Now, then, as long as these exchanges are rigged up to accommodate themselves to gambling transactions, their profits are limited only by the ability and disposition of men to gamble. They call it "speculate." Whereas, if they were limited to spot transactions, to actual commercial transactions in the commodity, they would be limited to the direct necessities of trade.

Mr. VOIGT. Let me ask you again, is it impossible to buy spot cotton on the New Orleans Cotton Exchange?

Mr. SUMNERS. I would not say; it is not possible to buy spot cotton on either the New York or the New Orleans Cotton Exchange.

Mr. McLAUGHLIN of Michigan. This buying of spot cotton mean the buying of the actual cotton of an exact grade?

Mr. SUMNERS. It is not possible to get delivery of specific grad on the contract traded in on these exchanges.

Mr. VOIGT. That gets back again to the question of requiring de livery of the actual commodity contracted for.

Mr. SUMNERS. Yes, sir. And another reason, which I suggested t you a moment ago, is that the cotton crop will not clear throug these exchanges.

Mr. VOIGT. From an economic standpoint do you mean?

Mr. SUMNERS. Yes, sir. Through the economic law that operate against the exchanges, and the contracts which require delivery a the point where the exchange is located.

Now, gentlemen of the committee, I want to make this statement I wrote the original draft of the "antibucket-shop" law of Texa in 1907. We had to build that law from the ground up. Before would draft the bill I went into the whole proposition of these ex changes and I came definitely to the opinion that it is impossible t build a stable market on the foundation of these institutions; yo will never be able to do it.

Mr. TINCHER. Right there, Mr. Sumners, wouldn't that be a goo place for you to answer my question?

Mr. SUMNERS. Yes, sir. Will you repeat your question?

Mr. TINCHER. Are you familiar with the bill I have pending be fore the committee?

Mr. SUMNERS. No; I have not read it, but I know something o its provisions.

Mr. TINCHER. What do you say about a law which will have th effect of doing away with gambling in wheat and cotton futures?

Mr. SUMNERS. I think that under present conditions you gentleme ought speedily to stop short sales in those commodities.

Mr. TINCHER. We ought to stop them, do you say?

Mr. SUMNERS. Yes, sir; under existing conditions. I do not be lieve there is any doubt about it on earth. But I think the effect o future transactions is somewhat misunderstood and somewhat exag gerated, to be entirely candid about it. As to the cotton exchange they do not sell the cotton of the farmers, as a lot of us from th South are so accustomed to say.

Nobody understands when they make one of these contracts tha they are going to take delivery. These future board transaction do two or three things. They postpone demand. There is no abou that at all. Short selling postpones demand. Take the spinner He wants to know about how much profit he can make on futur sale of his manufactured goods. If he did not have an opportunit to "hedge" his transaction he would buy some cotton at the time o his future sale. It has a psychological effect. The quotations o these future boards have a psychological effect, in my judgment, o the general market. I think another thing occurs. To illustrate Take a group of men who have sold in the market short two of thre million bales. They can actually afford to deliver 500,000 bale of cotton at half a cent less than they paid for it if they can b that means beat down the spot market, pull the future marke with it, and win more on 3,000,000 bales of future than is lost on th half million of spots.

Another thing, as to this "hedging" business. While it seems to be necessary under the present method of marketing, at least the trade, much of it so contends, there is no one thing in this whole system of marketing which adds more to the instability of prices than the custom of hedging. When a commodity is hedged the man who is holding it, so far as the general movement of the market is concerned, has cut himself off from hope of gain if it goes up and is under no fear of loss if it goes down. They say it is to him a form of insurance; but it is too good an insurance. It is just as good an insurance as though a man could go out here and insure his house for every cent of its value and collect the full amount if he should burn it down. It is a peril to his neighbors.

Mr. McLAUGHLIN of Michigan. My idea of this cotton-exchang business is limited, but I have heard made statements like this Suppose that a cotton spinner, a man who has a mill, has to hav a large quantity of cotton at the beginning of the season and mus know that he will be able to get it. He goes out and buys, for example, 1,000 bales of cotton at 30 cents a pound. Now, his manufactured goods are not going to be put on the market for several months. So he goes on an exchange and sells 1,000 bales of cotton——

Mr. SUMNERS (interposing). No; he does not buy 1,000 bales of cotton.

Mr. McLAUGHLIN of Michigan. No; he has bought 1,000 bales of cotton for actual use in his mill.

Mr. SUMNERS. Oh, I beg pardon.

Mr. McLAUGHLIN of Michigan. Then he goes on to the exchange and hedges by selling 1,000 bales of cotton, doesn't he?

Mr. SUMNERS. No, sir; he does just the reverse. He sells the output of his mill in advance, and then he buys 1,000 bales of cotton as a hedge, if 1,000 bales is about the amount he expects to spin up in order to fill the contracts for future delivery.

Mr. McLAUGHLIN of Michigan. He does not know what the price is going to be at the time his goods are put on the market, and therefore he hedges.

Mr. SUMNERS. Yes.

Mr. TINCHER. But he always hedges against the interest of the farmer?

Mr. McLAUGHLIN of Michigan. The statement is made that unless he can do that he can not engage in business.

Mr. SUMNERS. Oh, gentlemen of the committee, you know that is a ridiculous proposition.

Mr. McLAUGHLIN of Michigan. He feels that he is safer if he can hedge.

Mr. SUMNERS. That is true, perhaps, though the failure of the spot and future markets to fluctuate together has largely destroyed the value of the "hedge."

Mr. McLAUGHLIN [illegible] Michi[illegible] me say that is entirely [illegible] because the man [illegible] ual dealer in cotton. [illegible] [illegible] that I [illegible] accept [illegible] that cotton [illegible] [illegible] [illegible] ange [illegible]

Mr. S[illegible] [illegible] ing it [illegible]

Mr. [illegible] Then [illegible] amble [illegible]

Mr. SUMNERS. He says it is insurance; but the trouble is this——

Mr. McLAUGHLIN of Michigan (interposing). Yes; and from your high standpoint he is as much a gambler as anybody else, isn't he?

Mr. SUMNERS. Well——

Mr. McLAUGHLIN of Michigan (interposing). Isn't that true, now, on the square, that he does not contemplate actual delivery?

Mr. SUMNERS. Yes, sir; that is true.

Mr. McLAUGHLIN of Michigan. And when he goes on the cotton exchange to make that transaction he has got to find somebody to take the other end of it?

Mr. SUMNERS. Yes.

Mr. McLAUGHLIN of Michigan. And perhaps he does not know with whom he is dealing, does he?

Mr. SUMNERS. No; he does not know.

Mr. McLAUGHLIN of Michigan. And he has to deal with anybody who is willing to take the other side of the transaction?

Mr. SUMNERS. Yes, sir.

Mr. McLAUGHLIN of Michigan. And if it is necessary and proper for him to do that, why isn't it proper for somebody to be on the other end of the deal?

Mr. SUMNERS. He has to have somebody to deal with.

Mr. McLAUGHLIN of Michigan. And that may be somebody who is actually dealing in cotton; and you say that would not be forbidden by such a bill as some of these are; but if it is somebody who is simply gambling, and who never saw a bale of cotton in his life and never expects to see one, if that kind of man takes the other end of the transaction, it is wrong and should be forbidden by law. Do I get the right idea from your standpoint?

Mr. SUMNERS. You do in a way. There is rather an interesting evolution of the position taken by those people who represent the exchanges. In the earlier times they claimed and they swore in the courts that delivery was contemplated on the contracts. When the agitation in regard to putting out the "wire" houses began, and when the bill was pending before the Texas Legislature, representatives of the exchanges contended, even at that date, that delivery was contemplated on the contracts. Then they finally abandoned that position and said they were opposed to gambling, but that they had to have the hedging privilege.

Now, on that score I want to direct the attention of this committee to the fact that they can not preserve a "hedge" market without the presence of the gambler—without indulging in pure gambling transactions. I want to make that very clear. Two things constitute the value of a "hedge": (1) Immediate execution and (2) that it is to be so executed as not to disturb the parity between the future and the spot markets.

Suppose at a given time 10 people are in the market, each of them to sell a "hedge" of a thousand bales of cotton. And suppose there does not happen at that particular time to be pending in the market orders to buy more than 9,000 bales for "hedge." There would be delay, and you could bid the market to the sky. What happens? Why, the gambler absorbs the other 1,000 bales of cotton. And in order for this hedging to operate they have to have the presence of the gambler all the time in the market to absorb the difference between the offerings to buy and the offerings to sell for a "hedge" tha

are pending in the market. Aside from any question of morals, I have never seen anything, as I have come in contact with men and business, to convince me that God rigged the economic machinery of the world so that gambling upon the price of that produced by honest labor is necessary for its proper economic sale and distribution.

Mr. McLAUGHLIN of Michigan. When this man who is in actual business and goes on to the exchange, goes there to hedge, does anybody know what he is there for or who he is?

Mr. SUMNERS. Well, he wires in his order to buy or to sell, to some commission house that has a right to go on the floor, and they execute the order.

Mr. McLAUGHLIN of Michigan. And they go out to execute his order and deal with anybody who will take the other end of the deal?

Mr. SUMNERS. Yes; that is true, except, of course, the primary responsibility rests upon the commission merchant and the other broker, who handles the other end of the transaction.

May I now complete the statement which I began, under the observation that the custom of "hedging" adds more to the instability of the market than anything else. To illustrate, take a situation where one-half of the cotton crop has been sold and hedged. That half that has been sold and hedged, the owners of that half, as such, have no concern at all about preserving the stability of the market. In other words, they make just as much money if the market breaks a cent a pound, under their contract, providing the parity between the future market and the spot market is maintained, as they do if the market goes up a cent a pound. If that cotton was not hedged the man who paid 10 cents a pound for cotton, for instance, would stay with it a long time before he would sell it for 9 cents. But under the hedging opportunity he does not give a whoop; he would just as soon sell it for 9 cents as for 10 cents, providing the general market goes down.

Mr. TINCHER. Let me ask you this: Let us say that a man who contemplates the use of 1,000 bales of cotton has sold the output from his mill. Under existing conditions he goes on the board and gambles in 1,000 bales of cotton. If he could not do that he would naturally do the business thing; he would go and buy 1,000 bales of cotton with which to fill that order for actual delivery, would he not?

Mr. SUMNERS. He would either do that or have this sort of contract: Suppose a man would figure that if he paid 10 cents a pound for cotton he could sell a certain cotton cloth at 5 cents a yard——

Mr. McLAUGHLIN of Michigan (interposing). Well, right there: Suppose a spinner needs 1,000 bales of cotton, and he goes out and buys, actually buys a thousand bales of cotton and has it delivered to him, and he has the manual possession of it. Doesn't it make some difference to him as to the price he can get for his product compared with the price he has paid for cotton? That is, when he is ready to put his product on the market?

Mr. SUMNERS. Yes.

Mr. McLAUGHLIN of Michigan. Then, doesn't he say it is necessary for him to hedge, although he has actually bought and has in his possession 1,000 bales of cotton?

Mr. SUMNERS. Manufacturers of other commodities do not do that? The hedge is itself largely responsible for whatever necessity to hedge there is.

Mr. McLAUGHLIN of Michigan. Well, some do hedge.

Mr. SUMNERS. Take the implement manufacturer, I doubt if he hedges.

Mr. McLAUGHLIN of Michigan. The implement manufacturer is in an entirely different situation. But to follow the illustration I wanted to make, suppose a manufacturer of cotton goods has bought cotton at 30 cents a pound to put into his goods. Some months hence, when he had to put his goods on the market, cotton has gone down to 20 cents a pound, doesn't that affect the price at which he can sell his product?

Mr. SUMNERS. I can go out and buy shoes now, if I may thus answer your question, and while, of course, leather is way down cheap and shoes have come down some, yet not anything proportionate to the reduced price of leather.

Mr. McLAUGHLIN of Michigan. I am talking about the actual conditions as they are in the cotton market. Isn't it true that in the actual workings in the market, that if a cotton manufacturer, who makes goods out of cotton, paid at the beginning of his year 30 cents a pound for cotton, and then at the time when he comes to put his goods on the market, which have been made out of 30-cent cotton, cotton is worth only 20 cents a pound, he will have to shear his price on his goods; isn't that true?

Mr. SUMNERS. I guess that is right. But if those who had bought cotton had not hedged, except under most unusual conditions, that slump would not occur. They would effectively resist such a decline. There ought to be the possibility of loss. In the case of the farmer who has invested 30 cents a pound in making his crop—if cotton is selling at 20 cents when he comes to sell, he must stand the loss. But the trouble is that the whole weight of sus-taining the stability of the market is always resting on the unsold part of the crop and on the farmers, and these fellows all along the avenues of manufacturing and merchandising are not bearing their part of the burden in maintaining stability. The farmer can not protect himself by a hedge. He can not hedge against the uncertainties of production.

Mr. McLAUGHLIN of Michigan. You made a statement that was interesting to me, when I gave the illustration as to the man whom I understood would not buy the cotton to put into his goods unless he could hedge; you said that is not true.

Mr. SUMNERS. Oh, you would not close down a spindle in this country if men could not hedge. They might argue that they would have to operate on a bigger margin, but they would not close down.

Mr. McLAUGHLIN of Michigan. The statement to the effect that they would not operate is not true?

Mr. SUMNERS. That is ridiculous. It is the same as saying that people would not wear shirts in this country because people who bought cotton could not hedge. It is absurd.

Mr. JACOWAY. What has the New York or the New Orleans Cotton Exchange got to do with the provisions of your bill?

Mr. SUMNERS. Nothing at all. I am simply answering the questions of the members of the committee.

Mr. JACOWAY. Has this plan, to your knowledge, ever been put into effect anywhere?

Mr. SUMNERS. The principle of it has been in effect all along. The theory of the open market place, as I said to the committee in the beginning of my remarks, and the maintenance of open-market places, has been recognized as a duty and function of the Government with regard to commerce from time immemorial until the last few decades.

Mr. JACOWAY. I want to state that there is a place in my district, outside of Little Rock, a station called Scott, around which there are several thousand acres of land, and there the cotton owners have gone into this exact plan. They have formed a corporation, and they have it extending over into the State of Kansas. The result of that plan to those people is this: They raise about 5,000 bales of cotton a year in that section of the country. They have their own warehouse. They have their own grader. They have such financial strength that they guarantee not only weights but also grades. They sell in lots of not less than 100 bales and up to 500 bales. As I have said, they guarantee weights and grades. In the rough that is the object of that corporation.

And, now, let me give you the results of their operations. They have gotten, year in and year out, more for their cotton and more for their cottonseed, and sold it at less overhead charge than have the cotton producers in any other part of the State. It seems to me that if a plan of regulating the sale of 5,000 bales of cotton has been a success, as it has been used in Arkansas and in some other States, it would be a good idea for the Government to act along the same line.

Mr. SUMNERS. I am very glad to have that suggestion from my colleague. And, in that connection, may I read from 17 Coke's Institutes, page 713:

> The common law did hold it a point of great policy and behooveful for the common weal that fairs and markets overt be replenished and well furnished with all manner of commodities vendable in fairs and markets for the necessary sustenance and use of the people. And to that end the common law did ordain (to encourage men thereunto) that all sales and contracts of anything vendable in fairs and markets overt should not be good only between the parties, but should bind those who had rights thereunto.

That comes down from the old Anglo-Saxon, and it suggests just what I have indicated, that from time immemorial, from a time back beyond which history does not go, it has been recognized as the chief function of government with regard to commerce to establish the opportunites of commercial transactions among all the people, the establishment and maintenance of regulation of the people's market places is a function of government. That is the point I make.

Now, gentlemen of the committee, I make the further point that since the Department of Agriculture has been created to help agriculture deal with its big problems it ought to function at this point, where the very nerve center of agriculture is located.

The CHAIRMAN. Before you start in on another point let me ask, cotton futures are now about 2 cents above spot cotton, aren't they?

Mr. SUMNERS. I do not know just how much above.

The CHAIRMAN. The cotton grower to-day may sell his cotton in the future 2 cents higher than spot cotton—that is, when future is above spot?

Mr. SUMNERS. Yes, sir.

The CHAIRMAN. I think you will find it is 2 cents above. That is no disadvantage, is it?

Mr. SUMNERS. No; perhaps not; but——

The CHAIRMAN. So that if he could hold his cotton until May he could get 2 cents more than he can now get for spot cotton. In the matter of wheat, cash wheat was quoted higher than future wheat. The wheat grower can sell his wheat to-day and deliver it and get his cash and turn right around and buy wheat for future delivery at about 10 cents less I think it is.

Mr. TINCHER. It is 17 cents, for May.

The CHAIRMAN. If you have a thousand bushels of wheat in your bin to-day you can sell it and buy back May wheat at 17 cents less.

Mr. SUMNERS. No; but you must remember that——

The CHAIRMAN. Isn't there any disadvantage in that?

Mr. SUMNERS. It is a pure question of juggling. I would not like to say there is no disadvantage in it. I think if you push the market up too high by manipulation it is likely to come down that much too low, with the net result of instability, which unsettles business judgment and makes impossible the application of business methods in the sale of our farm products.

Mr. TINCHER. The object of the manipulators of the wheat market, keeping May options 15 cents to 17 cents lower than cash wheat, knowing that no more wheat will be thrashed in that time, it is very apparent is to keep cash wheat way below cost of production.

The CHAIRMAN. Yes; but if a miller contracts to deliver a certain number of barrels of flour this month he can not wait until May. I understand wheat is short at the present time and the miller is compelled to pay that premium on wheat.

Mr. TINCHER. It is the best evidence that the manipulators are robbing the farmers.

The CHAIRMAN. Mr. Sumners, I understand you to say that the spinner does not contemplate delivery, and the rest of the cotton he buys through future orders?

Mr. SUMNERS. No.

The CHAIRMAN. If the grades tenderable under a contract were limited to a contract grade there would be no question about that, would there? He would then be assured that the proper grade would be delivered under the contract?

Mr. SUMNERS. Yes; I think that would be a fair assumption. But I do know that cotton is not going to move——

The CHAIRMAN. That contract would then be worth more to the spinner. He would then be guaranteed that the grade he could use in the production of his cloth would actually be delivered?

Mr. SUMNERS. Yes, sir. I think it is perhaps a little involved——

The CHAIRMAN. On a contract now practically any cotton can be delivered, because, as you said a moment ago, a kind of cotton which he can not use can be tendered under a contract. If you could deliver only three grades of cotton, the contract grade and one grade above or one grade below, the chances are that the spinner could use one of the three. Would that give him proper protection?

Mr. SUMNERS. If they would sell contracts to deliver a specific grade of cotton and delivery could be made at concentration points

along the line of commercial movement and the exchanges were properly conducted, it would be as good as any place on earth.

The CHAIRMAN. The next thing would be to have the commercial differences determined. As I understand you now have the differences fixed; that is, the exchange fixes the differences. It should be the actual commercial differences.

Mr. SUMNERS. Gentlemen of the committee, I have studied this matter for a good many years, and my own idea is that what we ought to do in this country is to apply the philosophy of the markets of other days to modern conditions. I believe the establishment and maintenance of an open market place or places is a better regulation against monopoly and is a squarer deal to everybody and has a greater tendency toward stability of prices, fair profit to producer, and fair price to consumer, and toward democracy in business opportunity than can result from a purely legalistic policy. I do not say that antitrust laws are not necessary, but if you establish free opportunities of commerce among all of the people, individuals, big business, little business, and cooperative groups, you give opportunity to the great natural laws of commerce; you give them a chance automatically to eliminate waste and excessive profits. And when you shall have done that then you will have established a really firm basis upon which you can build a rural credit system and a structure of economic strength for agriculture. You will make it possible for the farmers to sell normally and properly and not under the flood-tide movements, as they do now. You can never build such a structure on the basis of these privately-owned so-called exchanges.

Mr. MCLAUGHLIN of Michigan. If you will permit, I would like to go back to the matter I spoke of at the beginning of the hearing, as to whether or not markets should have to do with intrastate contracts.

Mr. SUMNERS. Yes.

Mr. MCLAUGHLIN of Michigan. We are told that a very large percentage of a given kind of grain never leaves the farm on which it is grown, and that another large percentage never leaves the State in which it is grown; and those percentages are very high. Would you have this market so conducted that it would have to do with those grains or commodities that are strictly in intrastate commerce?

Mr. SUMNERS. I do, and I believe it is a feasible development. I believe that you could coordinate the Federal Department of Agriculture and the State departments of agriculture so that, perhaps, the Federal Department of Agriculture could render some assistance in the handling of purely intrastate transactions.

Mr. MCLAUGHLIN of Michigan. Of course, it could be done if your plan is feasible, and, for the sake of the argument, I give you credit for having worked out a plan that is feasible. But would it be proper for the Federal Government to go into a State and take charge of matters that relate to a situation entirely within the boundaries of a State?

Mr. SUMNERS. Yes. We have a national Department of Agriculture, which, of course, deals with agriculture wherever it finds agricultural problems. I think that in this matter the State should be compelled to do whatever it can do; that the individual and cooperative groups should do likewise. But suppose we have established in

your State a branch of this farm produce exchange system, and tha some farmer there has a commodity for sale, and that the man wh happens to want to buy it lives also in the same State. It does no seem to me that it would be an invasion of the province and duty o the particular State to make it possible through such an organizatio for those two people, although they happen to live in the same State to get in trading contact with each other. But about those details I an willing to yield. Let us get the thing started and see what we can do

The CHAIRMAN. I understand that you are opposed to future trad ing; that is, under the present system, at least?

Mr. SUMNERS. I am opposed to many of the practices on the futur boards.

The CHAIRMAN. Would you be in favor of future trading unde proper regulation?

Mr. SUMNERS. Yes, sir; I am in favor of future trading wit proper regulation, if we understand each other in regard to what i meant by future trading.

The CHAIRMAN. Under the operations of the exchanges the opera tor fixes the differences and the buyer has nothing to say about it and the buyer has no protection whatever. The cash difference ma be 15 cents and they might fix it at 2 cents. I think that anybod would suggest that the buyer should have some protection, but unde existing conditions he has no protection. My position is that some body should determine that difference; that if anybody contracts t deliver a grade of a commodity somebody should determine the dif ference if that grade is not delivered. In the cotton futures act th Secretary of Agriculture determines the actual commercial difference

Mr. SUMNERS. But even then we have the remarkable condition o the New York Exchange of future deliveries being very much lowe than spot quotations last year.

The CHAIRMAN. Oh, well, we can not regulate that.

Mr. SUMNERS. That shows there is not a proper determination o commercial difference between the different grades.

The CHAIRMAN. That is indicated by the market.

Mr. SUMNERS. Yes.

The CHAIRMAN. The question is, whether you are going to cut ou speculation altogether.

Mr. SUMNERS. I have studied this thing a good deal, and have com to the conclusion we are suffering more from not having what w ought to have than from what we have.

The CHAIRMAN. I think if we have speculation at all we shoul have a fair contract.

Mr. SUMNERS. I want to see a place where these commodities ar put up for sale that is a public place, where they are put up honestl and squarely for sale, and where everybody who wants to buy ma get in touch with the commodities under proper regulation, wher strangers can take care of themselves, and then let nature take it course.

The CHAIRMAN. Do you believe in the seller determining grades

Mr. SUMNERS. No, sir.

The CHAIRMAN. As to wheat, the grades are determined by the ex changes, while with cotton the differences are determined by the Sec retary of Agriculture.

Mr. SUMNERS. Yes, sir.

The CHAIRMAN. Would you be in favor of limiting the grades tenderable on a contract?

Mr. SUMNERS. Yes.

The CHAIRMAN. Would you limit the contract grades?

Mr. SUMNERS. I would limit them to the grades which comprehend the commercial designations of the commodity.

The CHAIRMAN. In cotton how many grades are deliverable?

Mr. SUMNERS. About 9 or 10, I believe.

A BYSTANDER. There are 10 grades in cotton.

The CHAIRMAN. You would be in favor of putting in a limitation?

Mr. SUMNERS. That limitation has been imposed.

The CHAIRMAN. Are you satisfied with that limitation?

Mr. SUMNERS. Yes; it is all right with me. I have attempted to make myself very clear, but I do not know whether I have done so or not.

The CHAIRMAN. If you were writing a contract as a lawyer, would you think it necessary to specify in that contract the difference?

Mr. SUMNERS. I would not want one of the parties to the contract or the brokers to determine the difference.

The CHAIRMAN. You would not want these parties to do that?

Mr. SUMNERS. No, sir.

The CHAIRMAN. And that is being done now?

Mr. SUMNERS. Yes, sir; in wheat, I understand.

The CHAIRMAN. We agree upon that.

Mr. SUMNERS. Yes, sir.

Mr. Chairman, I see that the time for recess has about arrived. I thank the committee for its patience and interest. My statement, of necessity, has been somewhat disconnected. May I assemble and briefly restate my position and judgment?

As I have stated, I am willing to vote to regulate these exchanges, but to be entirely candid with you and with the committee, I am certain that we are suffering more from the lack of what we ought to have than from abuses in what we now have. I am definitely of the opinion that we are wasting time trying to build a market upon these so-called exchanges as a foundation. It can not be done. It seems to me that all must agree that what is needed is a public market place, open to all, free from the fact and from the suspicion of private control and manipulation, where farm products may be sold by grade and may move under prior sale from the places of first concentration, along the ordinary, normal lines of commercal movement, to places of need in quantity and quality in accord with the demand for need. These so-called exchanges admit that they are not doing that work: are not trying to do it. And yet we keep trying to force an unwilling group of private people to do this difficult public service when we know that their wish, if they should be forced to undertake it, would be for its failure, and their inclination would be to throw as many monkey wrenches as possible into the machinery.

I hope that you gentlemen, upon full consideration, will agree with me that the practical, common-sense thing to do is to use the public machinery which we have and render this public service, and bring the difficulties of economic sale and distribution of agricultural prod-

Only two years ago the Bureau of Markets conducted an investigation of cotton exchanges. It seems to the cotton men that after all financial depressions, which naturally cause declines in prices, a number of well-meaning lawmakers introduce bills for the abolition or regulation of future trading. It appears that the declines as shown on the future boards of the cotton exchanges, or the exchanges dealing in futures, are so visualized that the conclusion is readily reached that the future markets must be responsible for the decline; but careful analysis of general conditions will inevitably prove that such is not the case and that the law of supply and demand finally governs.

We do not doubt the sincerity of our representatives or their confidence that their actions represent their constituents, but we do question their knowledge of cotton, cotton statistics, and conditions concerning the marketing and consumption of cotton and the cotton business as conducted by the cotton exchanges of the country during the past 50 years.

The necessity of selling ahead has long been recognized as essential to the cotton trade. The mills sell their summer wear in the winter, as they manufacture a commodity which requires several months. The millman, in order to protect himself against forward sales of manufactured goods, uses the cotton market as a buying hedge against an advance in raw prices. On the other hand, the bulk of the cotton crop is marketed from August to December, and the market buys this cotton as the farmer sells, often buying a large quantity over and above immediate sales, and uses the future market as a selling hedge to protect itself against any decline in prices, gradually selling the stock of goods accumulated during the summer and buying futures.

The cotton business is not an exact science, nor is any of the machinery connected with buying, marketing, hedging, and selling, nor is the classification which is done by the human eye an exact science. Consequently, we hold no brief for the future contract as a perfect one.

However, not only America but Europe, through the Liverpool Cotton Exchange, has for over 40 years recognized future trading as the most economical and best price insurance which the farmer, merchant, cotton banker, and spinner have yet evolved. The present future contract is the result of an investigation made by Congress, started in 1907, as traded upon in the New York and New Orleans cotton exchanges, a report on which was made in March, 1908, Congress having appointed Mr. Herbert Knox Smith, then Commissioner of Corporations, to make an investigation of cotton exchanges and report.

Subsequently the Committee on Agriculture of the Sixty-third Congress held meetings, and after hearing representatives of the whole cotton trade the result was the adoption by Congress of the present United States cotton futures act, and also directed the Secretary of Agriculture to promulgate standards for cotton grades in the United States. The act was further amended March 4, 1919.

There are only two people in the cotton business whose interests are diametrically opposed. One is the farmer, whose object is to secure the highest price for the result of his labor. The other is

FUTURE TRADING.

MONDAY, JANUARY 10, 1921.

AFTER RECESS.

The hearing was resumed, pursuant to the taking of recess, at 2 o'clock p. m., to continue hearings on future trading, the morning session having been devoted to a hearing on governmental produce exchanges, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. Mr. Dupré, I understand that you desire to have representatives of the New Orleans Cotton Exchange heard by the committee?

Mr. DUPRÉ. Mr. Chairman, the gentlemen representing the New Orleans Cotton Exchange, whom you were kind enough to agree to hear this afternoon, are present. Are you ready to hear them?

The CHAIRMAN. We shall be pleased to hear them now.

Mr. DUPRÉ. I will then present as the first speaker Mr. E. S. Butler, president of the New Orleans Cotton Exchange.

The CHAIRMAN. Mr. Butler, you may proceed.

STATEMENT OF MR. E. S. BUTLER, PRESIDENT NEW ORLEANS COTTON EXCHANGE, NEW ORLEANS, LA.

Mr. BUTLER. Mr. Chairman and gentlemen, I would like to preface my remarks by stating that I am a cotton exporter and not directly engaged in future business. The cotton exchanges of the country, particularly those of New Orleans and New York, upon which cotton future trading is conducted under the United States cotton future act, section 5, and the rules and regulations of the Bureau of Markets, are commercial institutions which, through the medium of their rules and regulations, under the supervision of the United States Department of Agriculture, facilitate the concentration of all cotton interests—producer, merchant, banker, and consumer—and as a result prices are made for the commodity which are distributed worldwide.

The exchange itself does not buy, sell, or deliver any cotton at all, and its rules are fair alike to both buyer and seller. Since 1884 121 bills have been introduced at various sessions of Congress for the abolition or regulation of cotton futures. The cotton future trading is now conducted under a law which became effective in August, 1914, known as the Smith-Lever bill, and amended March 4, 1919. It should therefore be noted that Congress has not been lax in giving attention to cotton exchanges, nor has the Bureau of Markets, under whose supervision the exchanges operate, since the passage of the Smith-Lever law.

of telegrams received by the exchanges, desperate efforts were made notwithstanding the uncertainty of the future then, to reopen, and the exchanges were reopened on November 16, 1914. It must be remembered that the closing of the future markets means the closing of the interior exchanges.

The future contract, being an average grade contract—that is, 10 official grades of the United States cotton standards can be delivered against 100 bales—should sell at a reasonable discount under actual offerings of specific grades on the spot market, and it generally does in normal times. However, at the close of business Friday, January 7, 1921, spot middling cotton was quoted at 14 cents in New Orleans, Galveston, Houston, and Little Rock, whereas January cotton the current or spot months in New Orleans quoted at 14.34, showing conclusively that futures at present are commanding a premium, and contrary to being a depressing factor are gradually lifting cotton higher.

On behalf of the New Orleans Cotton Exchange, we wish to thank you gentlemen for the opportunity given us to appear here to-day, and I want to say that I will answer any questions to the best of my ability, and Mr. Dean and Mr. Stern will attempt to do the same.

Mr. TINCHER. Mr. Butler, your illustration there, showing that the future cotton was a little higher than cash, is conclusive to your mind, is it, that the trading in futures was responsible for the stable market?

Mr. BUTLER. That is not exactly the case, but it does prove conclusively that futures are not a deterrent factor.

Mr. TINCHER. I understood you to cite it as an example that it had a beneficial effect.

Mr. BUTLER. It shows that at present, Mr. Tincher, futures are tending to lift the price of cotton rather than to depress the price of cotton, and I think that is so, due to the fact that the public has an opportunity to buy cotton through the future markets, thereby creating more buyers than if it was left entirely to the trade to buy, and only trade buyers.

Mr. TINCHER. It is pretty hard to use the present condition of the price of cotton in the hands of the producer as an example for anything, is it not?

Mr. BUTLER. Why, yes; or the last five years as far as that goes, or any other commodity. We have been in abnormal, times and are still.

Mr. TINCHER. Suppose your futures were 10 per cent below the cash market; just what effect would it have?

Mr. BUTLER. Well, it is likely they would be in normal times. Dependent entirely upon the price, or more or less proportionate to the price, futures should sell at a discount under cotton.

Mr. TINCHER. Regardless of the time of the year?

Mr. BUTLER. Yes; regardless of the time of the year they should sell at a discount, and they do and have for many years, due to the fact that one is a specific thing that you buy when you know just exactly what you require, whereas if you take a future contract you have to take any one of 10 grades specified by the Government.

Mr. TINCHER. You think it is necessary, in order to furnish a stabilizing effect, that futures be dealt in to the extent of, say, 25 or 50 times the amount of the actual product?

Mr. BUTLER. I do not know that they are dealt in to that extent.

Mr. TINCHER. Well, say 40 times the amount of the actual product. Do you think it is necessary to gamble in them that extensively?

Mr. BUTLER. There is nothing near that figure, I think. I think the various markets would show something like six times the amount of cotton dealt in. That is probably due to the fact that a bale of cotton changes hands at least six times after leaving the farm and until it goes into consumption.

Mr. TINCHER. I am not familiar with cotton, but the same rule of marketing has something to do with the grain market. Every bushel of wheat changed hands 14 times before it was thrashed last year.

Mr. BUTLER. Of course, I do not know anything about wheat.

Mr. TINCHER. You think, then, it is necessary for this Congress to preserve legitimate hedging in the market?

Mr. BUTLER. Yes, sir. Well, I would put it this way. I think if we did not have future trading, I will say, cotton would have broken from 35 cents to 25 cents before there would have been any trading, without any intervening trades, whereas the decline in cotton during the past few months has been traded to every fractional part of a cent during that decline and some cotton has been sold.

Mr. TINCHER. You are citing the beneficial influence that the cotton exchanges have had in the last few months as an example tending to show why we should continue the cotton exchanges?

Mr. BUTLER. I do think the cotton exchange has had a beneficial effect upon cotton producers. I do not think the decline has been due to cotton exchanges at all.

Mr. TINCHER. You say cotton changes hands about six times. Do you think that ought to be enough?

Mr. BUTLER. That would not have happened in three months; I stated six times over the course of a year, probably.

Mr. TINCHER. Suppose you limited it to 10 times. That would not hurt anything?

Mr. BUTLER. Possibly not. I think the broader you make a market the harder it would be to manipulate.

Mr. TINCHER. In other words, the more gambling there is the more stable the market is?

Mr. BUTLER. We do not call it gambling, Mr. Tincher; we do not admit that there is gambling on the cotton exchange. Every man that sells a contract obligates himself to deliver that contract, and he is perforce compelled to deliver that contract.

Mr. TINCHER. Let us see about that. If he sells a contract he pays how much through your cotton exchange? What per cent does he have to put up?

Mr. BUTLER. The margins fluctuate according to prices and depending upon specific grades.

Mr. TINCHER. The per cent does not fluctuate, does it?

Mr. BUTLER. There is no fixed percentage; a man may trade on credit if his credit is good. He does not necessarily have to put up anything.

Mr. TINCHER. Well, if he puts up a percentage and that percentage is exceeded he is closed out, isn't he?

Mr. BUTLER. The per cent is generally about $10 to $20 a bale margin, just the same as in stocks, depending on the value.

Mr. TINCHER. And he stands to lose whatever he puts up? If it goes below that, he is closed out?

Mr. BUTLER. That is correct.

Mr. TINCHER. Then there is not any delivery contemplated, is there?

Mr. BUTLER. Yes, sir; there is delivery contemplated, and it is enforced unless he can get somebody to buy or take his place on the same contract that he has made.

Mr. TINCHER. The way you avoid having somebody buy or take his place is, if he has sold, why, the exchange or the commission man sells him out when his margin is exhausted?

Mr. BUTLER. No, sir; he gives him an opportunity to hold his contract further by putting up more margin.

Mr. TINCHER. But they do not take any chances on delivery; if he does not put up some money they sell him out?

Mr. BUTLER. Certainly; or if he is short, they do the same thing—if he has sold.

Mr. TINCHER. They really do not contemplate delivery, then?

Mr. BUTLER. Oh, yes; it is absolutely necessary that you contemplate delivery. It is in the act.

Mr. TINCHER. A bill that did not prohibit the sale of futures when delivery was actually contemplated would not affect your exchange at all, would it?

Mr. BUTLER. No; it would not.

Mr. TINCHER. And you came up here from New Orleans to testify on this matter. Have you read the bills that are pending before the committee?

Mr. BUTLER. Yes, sir; I have read some of them.

Mr. TINCHER. Have you read the bill I introduced?

Mr. BUTLER. I have read several of them; I do not remember the details.

Mr. TINCHER. The bill I introduced would not affect you one way or the other under your testimony. You would not have any objection to that, I suppose?

Mr. BUTLER. I believe your bill has a tax in it besides?

Mr. TINCHER. No, sir; that is just for the gambler; that would not affect you at all, because you are delivering the actual cotton.

Mr. BUTLER. Mr. Tincher, the proposition is this: The speculator—of course if you choose to call him a gambler that is all right; I would refer to him as an investor. The investor is a very necessary thing in the cotton business. The more you restrict or the smaller you make a market you can readily see the easier it would be to manipulate or handle the market. As far as I am concerned in the cotton business as an exporter I have no doubt that if future trading was abolished we would still sell cotton, but I am also certain that we would be one of a powerful trust that would control the price of cotton and some months buy no cotton at all. We would absolutely dictate the price of cotton.

Mr. TINCHER. Your idea is, then, that if we have an evil we had better let it alone, because if we abolish it you would become a part of a bigger evil?

Mr. BUTLER. I say that would be very likely to happen.

Mr. TINCHER. Our Nation has never dealt with evils from that standpoint, as I understand it, for fear of creating a worse evil.

Mr. BUTLER. I am quite sure, after 20 years' experience in the business, that we really need it.

Mr. TINCHER. Do you sell futures?

Mr. BUTLER. We both buy and sell futures. At times we buy considerably more than we sell, and at other times we sell considerably more than we buy for a short period.

Mr. TINCHER. What is the name of the organization that you are the head of?

Mr. BUTLER. I am vice president of Waterford, Crump & Co., an export firm—foreign exporters.

Mr. TINCHER. Are you connected with the cotton exchange?

Mr. BUTLER. Yes, sir; in the capacity of president.

Mr. TINCHER. You have a membership in the exchange and are president of the organization?

Mr. BUTLER. Yes, sir.

Mr. TINCHER. And you are appearing here before the committee to-day as a representative of both the exporters and the cotton exchange?

Mr. BUTLER. Yes, sir; I am willing to serve in both capacities.

Mr. TINCHER. Have you any representative who resides here in Washington—a representative of either of those institutions?

Mr. BUTLER. Yes; we have Mr. Stern and Mr. Dean.

Mr. DUPRÉ. Mr. Tincher says who reside in Washington.

Mr. BUTLER. Oh, no. No; we have no representatives here at all.

Mr. TINCHER. You have one who works for you part of the time here?

Mr. BUTLER. No, sir; the cotton exchange does not employ anyone in Washington.

Mr. TINCHER. Well, there are some men that stay here and who come before us and tell us about how it would ruin the farmers in their districts if we pass any legislation, and upon investigation we find that they live here in Washington and have been living here for a number of years, and are always handy to offer this testimony. Does your exchange or your exporting company contribute to the support or relief of any of those distinguished gentlemen?

Mr. BUTLER. No, sir; unless it is done individually. It is not done by the exchange, so far as I know.

Mr. WILSON. In order to be more explicit it might be well for Mr. Tincher to ask whether Mr. Marsh represents you.

Mr. BUTLER. I do not know Mr. Marsh.

Mr. TINCHER. I did not have Mr. Marsh in mind; I was referring to another man.

Mr. MCLAUGHLIN of Nebraska. Mr. Butler, did I understand you to say that the speculator has been instrumental or has been a factor in providing, or that he helps to establish a ready cash market for cotton? I understood you to say that the producer of cotton can find a ready cash market for it at all times. Has that been the case in recent months?

Mr. BUTLER. Why, yes, sir; the producer of cotton could have sold his cotton last July at 35 cents a pound; any speculator prob-

ably would have bought it. Some export firm that had sold cotton forward would hedge by buying futures. The whole cotton crop would have been sold without any trouble at all. As Mr. Tincher just stated, we trade in ten times the quantity that is grown, so he ought not to have had any trouble in selling the crop.

Mr. LAUGHLIN of Nebraska. I just wondered, in view of some other testimony that has been given here, whether there have not been times when there was really no opportunity for them to sell at all.

Mr. BUTLER. Not in the the future market. You can always sell at a price, except such cotton as is eliminated under the contract. But cotton that will pass the contract can be sold, and the great bulk of the cotton that is grown is included in the United States cotton-futures act.

Mr. McLAUGHLIN of Nebraska. If the farmer wants to sell cotton for future delivery, what is his procedure? Does he have to put up some money?

Mr. BUTLER. Why, yes; he would have to protect his contract. There is no guaranty that he would deliver, but that his cotton would be purchased.

Mr. McLAUGHLIN of Nebraska. There has been no opportunity since the recent cotton crop was produced down in some parts of your country for the farmer to finance himself to sell on the future market, has there?

Mr. BUTLER. It costs the farmer just like everybody else. We have all been restricted in financing this year, and we have all had to cut our cloth accordingly, but I dare say that any farmer in good standing could have secured money and could have disposed of his crop, and the bank would take his future contract against his actual cotton—the safest kind of protection.

Mr. McLAUGHLIN of Nebraska. In the recent hearing before the Committees on Agriculture of the Senate and House, in joint session, with reference to the revival of the War Finance Corporation and Federal reserve legislation the testimony was pretty largely to the effect that the farmers down there could not get credit at all; that it was the one part of the country above any other where the agriculturists could not get the credit.

Mr. BUTLER. It is possible that in some parts of the country they could not get any credit at all.

Mr. McLAUGHLIN of Nebraska. The cotton farmers generally have been pretty hard hit during the last year?

Mr. BUTLER. Undoubtedly; the decline in the price of cotton has been something terrible, and we see very little hope unless we can arrange finances a little better for them.

Mr. McLAUGHLIN of Nebraska. Has that general depression and loss of money been shared along the line in the cotton business?

Mr. BUTLER. Why, yes, sir; I think you can say that every merchant and every exporter has done less business than he has done for several years, and his losses have generally been correspondingly larger.

Mr. McLAUGHLIN of Nebraska. I would like to call the attention of Mr. Butler and the committee to an article that appeared in the Washington Post yesterday, as follows:

MILLS PAY BIG DIVIDENDS—FALL RIVER PLANTS' DISBURSEMENTS IN 1920 TOTALED $9,989,300.

FALL RIVER, MASS., *January* 8.

A new high record for dividends was made by the cotton mills of this city during the year 1920, according to a summary issued to-day. The total dividends paid during the mill year of 1920 amounted to $9,989,300, an average of 29.148 per cent on a capitalization of $36,060,000. The best previous record was in 1918, when there was disbursement of $6,095,328 for a rate of 18,489 per cent.

The total for 1920 is $5,132,405 in excess of the amount distributed to stockholders in 1919 and $3.900,974 in excess of 1918, even though that year was considered the banner of all time. The list shows an unsual number of large dividends paid during the year, ranging from 65 per cent down to 16½ per cent on common stock.

It does not look as if the manufacturers had shared very heavily in the loss in 1920, does it?

Mr. BUTLER. I do not know. Those profits were made on 1918 and 1919 cotton, which sold at 35 and 40 cents a pound. This year's profits will come in next year on 15 and 16 cent cotton, and it is a fair wager to say that the mills will have declared very little dividends for this year. We only wish they would buy some cotton and declare some dividends, but we can not sell it. We could sell it to them in unlimited quantities in 1918 and 1919 at 30 to 35 cents.

Mr. MCLAUGHLIN of Nebraska. I would like also to call attention to this clipping from yesterday's Washington Post:

STOCK EXCHANGE SEAT FOR $90,000.

NEW YORK, *January* 8.

An increase of $10,000 in the price for New York Stock Exchange seats was recorded to-day, when two seats were transferred, one for a consideration of $90,000, the other for $89,000. The last previous sale was for $80,000.

Mr. BUTLER. Is that on the stock exchange?

Mr. MCLAUGHLIN of Nebraska. The New York Stock Exchange.

Mr. BUTLER. Of course, I do not know anything about stocks; that is entirely out of my line.

Mr. TINCHER. Before we leave this subject of the farmer selling futures, it being one of the arguments advanced as to the beneficial effects of the trading in futures, let us be practical on it.

Mr. BUTLER. That is the best way.

Mr. TINCHER. Let us say that a man has 500 bales of cotton, and he wants to sell it on the New Orleans Exchange. How much money per bale does he have to put up with the exchange?

Mr. BUTLER. Mr. Tincher, that all depends upon his standing in the community and who he is. Certain firms have better credit than others.

Mr. TINCHER. I am just thinking about the poor devil who has nothing else in the world but the 500 bales of cotton.

Mr. BUTLER. I am certain that he can go to any broker and make an arrangement with him to take his 500 bales of cotton if he will assign his 500 bales of cotton to him to cover the commission. The broker will charge him the commission and sell his cotton for him.

Mr. TINCHER. But I understood you to say he could sell it before it was grown; that that was the way the farmer could have taken advantage of the benefits of the exchange.

Mr. BUTLER. The farmer can do that if he knows exactly what quantity of cotton he is going to have to sell.

Mr. TINCHER. How much money would he put up per bale?

Mr. BUTLER. That would depend upon the price. He would pu up anything ranging from $5 to $20 a bale.

Mr. TINCHER. All right. Now, let us go back. Let us assume an other case. We will assume a man from Mr. Jacoway's district want to sell 100 bales of cotton. How much money would he have to pu up if he had sold it on your exchange a year to-day, we will say?

Mr. BUTLER. He would have had to put up $1,000, probably, t have sold that cotton.

Mr. TINCHER. Now, take that future-delivery proposition. Hov many times would he have had to rehedge on that?

Mr. BUTLER. It just depends on what month he sold.

Mr. TINCHER. I say last January.

Mr. BUTLER. What month would he hedge against—December?

Mr. TINCHER. Yes; say December.

Mr. BUTLER. If he sold cotton to-day he would have only one trans fer to January, and if he had delivered in December the transactio would have been closed right there.

Mr. TINCHER. I am assuming that he put up $10 a bale.

Mr. BUTLER. Yes.

Mr. TINCHER. Which made it a cash transaction. How man times would he have had to rehedge on that?

Mr. BUTLER. He would not have had to rehedge on that at all; h would have sold December originally, and if he had chosen to de liver his cotton in December that would have wound it up imme diately.

Mr. TINCHER. And this $10 margin would have taken care of it?

Mr. BUTLER. Absolutely.

Mr. JACOWAY. He would only have had to rehedge if it went up.

Mr. TICHNER. Suppose it went up. Did it go up after last Janu ary?

Mr. BUTLER. Yes; cotton advanced considerably up to last July It went up and down in the meanwhile, but it went up after Septem ber a year ago.

Mr. TINCHER. What I am getting at is this. If you only charg a $10 margin on a bale and he sold it last January, I want to kno whether, as a matter of fact, he would not have had to put up mor on it?

Mr. BUTLER. No; if he sold his cotton to a broker.

Mr. TINCHER. I am talking about his exchange dealing.

Mr. BUTLER. He must deal with a broker. The exchange itsel does not do any business in cotton; it is only a medium for doin business in cotton.

Mr. TINCHER. And if he had credit enough his broker would hav furnished the $10?

Mr. BUTLER. Yes.

Mr. TINCHER. Well, his broker would have charged him intere on it?

Mr. BUTLER. His broker would have taken his contract for th delivery of that cotton.

Mr. TINCHER. Your idea in continuing the trading in futures that the farmers obtain such beneficial results by taking advantag of that condition?

Mr. BUTLER. Yes; I do not think they are thoroughly familiar with the advantages they have. It is appalling that they are not.

Mr. TINCHER. Most of them that have played with it at all think they are familiar with it, but they do not call them "advantages"; they have another name for them.

Mr. BUTLER. They do not know much about it; that is the great trouble.

Mr. TINCHER. Then there really ought to be a campaign of education?

Mr. BUTLER. The exchange is doing that sort of thing, and this year when cotton declined to 17 cents a pound the board of directors had the statistical situation put out through the Associated Press, through the country. Mr. Hester, one of the members, is a well-known authority on cotton statistics. It apparently helped some; the price of cotton advanced 5 cents a pound, but it was destined to go lower; there was no demand.

Mr. TINCHER. Do you know Mr. Calvin, of Houston, Tex.?

Mr. BUTLER. Yes, sir; I have met Mr. Calvin. I have known him about 15 years. I remember when he was at the head of a cotton association, I think, called the Farmers Buying Association, in Houston.

Mr. TINCHER. Do you know where he lives now?

Mr. BUTLER. No, sir; I do not.

Mr. TINCHER. Has he ever been connected in any way with the exchange in New Orleans?

Mr. BUTLER. No; Mr. Calvin has never been a member of the New Orleans Cotton Exchange.

Mr. TINCHER. I do not mean a member; has he ever had any connection with the New Orleans Exchange?

Mr. BUTLER. Not that I know of; no, sir. Not during my administration, at any rate.

Mr. TINCHER. Do you know in whose employ he is staying here in Washington now?

Mr. BUTLER. No, sir; I do not. I have not seen him for a long time.

Mr. LAZARO. I have here the Times-Picayune, and under date of January 7 it says:

Elimination of speculation entirely from cotton exchanges would militate against the price of cotton produced the year preceding, Mr. E. A. Calvin, of Galveston, Tex., declared to-day before the House Agriculture Committee. He opposed the bill to regulate methods of trading.

Mr. TINCHER. That is evidently not the Calvin I had in mind. He testified he came up here from Fort Worth, Tex., and that he came because he had had a meeting with a few farmers down there and they asked him to come.

Mr. LEE. That is the same man, Mr. Tincher.

Mr. BUTLER. There is another matter that has come to my mind, and I think it is very elementary and very practical, and I would like to state it, if you do not mind.

Staple cotton sold in the Delta last year, I am informed, as high as $1.10 a pound. Similar cotton this year has sold as low as 22 cents a pound—the same cotton. That cotton is not protected by futures. You understand, under the futures traded in on the New

Orleans and New York cotton exchanges staple cotton of a value of over a quarter of a cent a pound premium is tenderable, but only at a premium of a quarter of a cent, and so it is eliminated as it brings a larger premium in the open market. So there is a part of the cotton trade which has suffered considerably more than the bread and butter cotton which is protected by futures and is readily tenderable.

Mr. LEE. Is that long-staple cotton?

Mr. BUTLER. Yes, sir; long-staple cotton.

Mr. TINCHER. This cotton the price of which has been stabilized by the exchange has been as high as 43 cents?

Mr. BUTLER. I think so.

Mr. TINCHER. And it has been as low as nothing?

Mr. BUTLER. No; it has not been as low as nothing. The lowest priced cotton sold on the New Orleans Cotton Exchange was 12.91 for January cotton, in the last four years.

Mr. TINCHER. I have understood that you could not sell spots at all.

Mr. BUTLER. Well, you could deliver them on contracts, if it is cotton that will pass.

Mr. TINCHER. But if you did not have credit, you would have to put up money to do that?

Mr. BUTLER. It would not take any money at all. You could turn it over to a broker who would handle it for a commission. Of course, he is not going to do it for nothing.

Mr. TINCHER. They tell me that right now you can not sell spot cotton of the class you are talking about now.

Mr. BUTLER. You are talking of cotton that is untenderable. I might mention here that the future contract was amended in March, 1919, and considerable cotton which would be deliverable was eliminated from the contract. The law limited it to good ordinary at that time, and it is now low middling. So that considerable cotton has been eliminated by Congress since 1919. There would be a ready market for that cotton to-day; the speculator would have to take it on contract.

Mr. TINCHER. If there is anything wrong it is the farmer or Congress, and not the speculator?

Mr. BUTLER. Well, I do not know.

Mr. TINCHER. It is between those two?

Mr. BUTLER. Well, the exchanges are only interested in disseminating information and giving them a place where they can make a price for their article. They try to give them a contract which is sufficiently comprehensive for them to trade on.

Mr. TINCHER. Do you charge anything for membership in your exchange?

Mr. BUTLER. Yes, sir.

Mr. TINCHER. What are memberships worth?

Mr. BUTLER. The last sale was, I think, $8,000.

Mr. TINCHER. They pay $8,000 for the membership for the purpose of distributing information?

Mr. BUTLER. No, sir; there are certain other privileges that are gained by membership, in the rules and regulations and the guarantees derived from being a member.

Mr. TINCHER. There have been men known to get their money back, to make money on their memberships, have there not?

Mr. BUTLER. Yes; some people in the cotton business make money, and some of them make a great deal.

Mr. TINCHER. But the average man that pays $8,000 for a membership in this exchange does it just by reason of his philanthropy and his desire to serve the public?

Mr. BUTLER. No, sir; he derives certain recognized benefits from becoming a member of the exchange.

Mr. TINCHER. That was my first impression.

Mr. HULINGS. In case of a dispute as to grades when delivery is made, who settles that dispute?

Mr. BUTLER. The grades are settled by the Bureau of Markets at Washington, under the Department of Agriculture, sir.

Mr. JACOWAY. There is always an appeal from that, is there not, Mr. Butler?

Mr. BUTLER. No, sir; the cotton exchanges are conducted directly under the Government, who maintain a board of classers, I think it is called. Probably Mr. Meadows can give me the exact name.

Mr. MEADOWS. The board of examiners.

Mr. BUTLER. The board of examiners class the cotton delivered on contract, so that whether you be a member of the exchange, a farmer, or whatnot you have no say-so as to what the grade is; the Government determines the grade for you. If you are not satisfied you have the right of review, and come to the final office here at Washington.

Mr. HULINGS. If you contract to deliver a specific grade and the classifier finds that it is two or three grades below or two or three grades above the specified character, is that called a differential?

Mr. BUTLER. Yes, sir; you get the commercial difference existing in the market on that day; you get the commercial difference existing on the date you issue your notice of delivery.

Mr. JACOWAY. My idea of the law was that under the amendment of the cotton futures act fixed differences were abolished, were they not?

Mr. BUTLER. Absolutely; yes, sir; in 1914.

Mr. JACOWAY. Then commercial differences were substituted for the fixed differences, were they not?

Mr. BUTLER. Yes, sir.

Mr. JACOWAY. Where I agreed to sell a certain grade of cotton and could not deliver it, that was settled by the commercial difference between the grade I agreed to deliver and the one I did deliver?

Mr. BUTLER. Yes, sir; exactly. It might not have met with your approval, you understand.

Mr. JACOWAY. Certainly. Now, if I were dissatisfied with that decision I had to write to the Secretary of Agriculture here?

Mr. BUTLER. Yes; to the Secretary of Agriculture at Washington.

Mr. JACOWAY. And that is the law to-day?

Mr. BUTLER. That is the law to-day under which we operate.

Mr. JACOWAY. Now, you spoke about the Government outlawing a certain number of grades. They were reduced, and I recall, down to about 10, were they not?

Mr. BUTLER. Yes, sir; the contract has been contracted from about 30 down to about 10 grades.

Mr. JACOWAY. Has that operated to the benefit of the farmer, or is it a detriment to him?

Mr. BUTLER. I am of the opinion that the contracting of the contract has been detrimental, but it has not been to a great extent, especially because we have been under such abnormal conditions that low-grade cottons have not been in demand, not due to their intrinsic value but to war conditions and labor conditions.

Mr. JACOWAY. Have you ever known a greater demand for low-grade cotton than there is to-day, if we only had some way of regulating the exchanges and getting the cotton to the people abroad who consume it?

Mr. BUTLER. Why, yes; we have had a better demand for cotton. I can not say that to-day we have the best demand, but I am pretty much of your opinion, that the demand for many grades of cotton, and even low grades——

Mr. JACOWAY. I am speaking of the low grades that we have the most of.

Mr. BUTLER. I could not say that that is a fact; I have not canvassed the market abroad sufficiently to know that. But I do believe that the demand for all cottons, owing to the devastation of war, is very great abroad, and it is simply a question of financing, absolutely.

Mr. JACOWAY. Then what is the trouble, if it can not be sold? I yould like for you to explain that for me.

Mr. BUTLER. It simply can not be sold, sir, on account of the depreciation in foreign exchange. In central Europe to-day they could pay out 40 cents for cotton—cotton was cheaper to them at 40 cents that it is at 15 cents, in their money.

Mr. JACOWAY. What does it cost to get a bale of cotton from here to Germany?

Mr. BUTLER. Why, the approximate cost to-day—the freight is 50 cents. The insurance is about 1 per cent on 15 cents—that is 55 cents. Then the tare of the cotton is 6 per cent. It would cost about 20 points, roughly.

Mr. JACOWAY. That would be $10 a bale?

Mr. BUTLER. Yes, sir.

Mr. JACOWAY. Then if we sold cotton over there what would the lowest grade of high-grade cotton sell for here? Just draw your deductions from your reasoning.

Mr. BUTLER. I think it was quoted at 9 cents, low middling cotton, for instance, which is the lowest recognized grade on contract. There are a lot of other things which enter into that. Its intrinsic value, according to the statistics of the Bureau of Markets, is about 5 per cent under middling, and at 15 cents a pound that would only be 75 points, you see, and it is selling at something like 500 off in the open market. You can buy it in Texas to-day at 8 cents.

Mr. JACOWAY. Take the supply of low-grade cotton the world over and the demand for it, ought not low-grade cotton to be worth on the market, say, from 20 to 25 cents a pound?

Mr. BUTLER. For low-grade cotton? Why, if the farmer were to get anything like the cost of production it certainly should.

Mr. JACOWAY. I am asking about its value under the law of supply and demand.

Mr. BUTLER. Why, the law of supply and demand is not operating. I can not answer until I know what the demand is to-day. It is impossible to state what the demand would be; it is only surmise on our part. I am rather of the opinion, the same as you, that if we could finance we could have sold the whole of the cotton crop, and also the sugar crop and the rice crop and all the rest of our crops that have declined, but that law is not operating. It is throttled by foreign exchange and the impoverishment of those countries and their inability to pay.

Mr. JACOWAY. This is the first time in the history of our country that we could not borrow money on cotton and sell it?

Mr. BUTLER. I quite agree with you. In 1907 it was the balance of trade and the panic that year. More gold came over for cotton than anything else.

The CHAIRMAN. Mr. Butler, I understood you to say that the contracts were fair alike to the buyer and to the seller. Would you mind stating exactly what the terms of the contract are?

Mr. BUTLER. The form of contract reads that in consideration of so much you agree to buy 50,000 pounds, in about 100 square bales of cotton, for delivery on such and such a date, in accordance with the United States cotton futures act, section 5. The seller has to agree to live up to that, and so does the buyer.

The CHAIRMAN. Would you mind stating what section 5 is?

Mr. VOIGT. Is the place of delivery specified in that contract?

Mr. BUTLER. Yes. This is the Louisiana contract; it is stated to be in New Orleans.

The CHAIRMAN. Will you mind stating what that section is?

Mr. BUGLER. I could not state the law; it is a matter of record.

The CHAIRMAN. If grades other than the contemplated grades are delivered, what happens?

Mr. BUTLER. The grades are: Low middling, middling, strict middling, good middling, good middling stained and tinged——

The CHAIRMAN. How many grades in all?

Mr. BUTLER. Ten.

The CHAIRMAN. Are there any subgrades?

Mr. BUTLER. Oh, the half grades are deliverable within that radius. Strict low middling is deliverable.

Mr. HULINGS. What arrangement do you have in the exchange there for cotton that is delivered locally in New Orleans if you want to have it delivered at New York instead?

Mr. BUTLER. Why, the Government certificates of grade are interchangeable, under certain regulations imposed by the Bureau of Markets.

The CHAIRMAN. That is what I would like to have you explain. How are the differences settled in case of dispute?

Mr. BUTLER. The differences are put on the cotton—the existing differences quoted in the New Orleans spot market of the date of issuance of the notice of delivery.

The CHAIRMAN. It is the actual commercial difference?

Mr. BUTLER. The actual commercial difference; yes, sir.

The CHAIRMAN. Are you familiar with the organization of the grain exchanges?

Mr. BUTLER. No, sir; I do not know how the grain is quoted, whether it is fixed or commercial. But in that respect I would like to state how our market is quoted. The New Orleans cotton market is quoted by three paid disinterested classers, in connection with a man employed by the Bureau of Markets. They go to every buyer and seller in the market and find out what cotton is sold and what price it is sold for, and then they class it rapidly and decide whether the market is up or down. They also have the right, in case of restricted or limited sales, to take into consideration bona fide bids or offers.

The CHAIRMAN. The Secretary designates not less than five markets?

Mr. BUTLER. Not less than five; yes, sir.

The CHAIRMAN. And it is the closing quotations that govern, is it?

Mr. BUTLER. Why, the actual sales made in that market that day are what govern in New Orleans. We take the actual sales.

The CHAIRMAN. In the cotton exchange the condition is ascertained by the Secretary?

Mr. BUTLER. No, sir.

The CHAIRMAN. He ascertains the cash market—the value or the commercial difference?

Mr. BUTLER. No, sir; it is made by the board of classers of the New Orleans Cotton Exchange, who are three paid disinterested employees, not members of the exchange and under the jurisdiction of no committee, except the board of directors, who only have the right to discharge them.

The CHAIRMAN. Let us see. Here is section 7:

Provided, That in case dispute arises between the person making the tender and the person receiving the same as to the classification of any cotton tendered under the contract, either party may refer the question of the true classification of said cotton to the Secretary of Agriculture for determination, and that such disputes shall be referred and determined and the cost thereof fixed, etc.

That would indicate that the Secretary ascertains the commercial differences.

Mr. DUPRÉ. That is the same question, Mr. Butler, that Mr. Jacoway was asking you about the matter of adjustment.

Mr. BUTLER. Oh, I did not quite catch your question, Mr. Chairman. In case of dispute the matter is referred to the Secretary of Agriculture; yes, sir; and he finally settles it upon the differences promulgated on the market that day in New Orleans.

The CHAIRMAN. You do not have fixed differences?

Mr. BUTLER. We never have had fixed differences in New Orleans; there were in New York up to the passage of the act; yes, sir.

The CHAIRMAN. Who determined it then?

Mr. BUTLER. Why, our market was quoted—before the passage of the act we quoted our market by five members of the exchange; three were buyers of cotton and two were factors or sellers. They fixed the price and the differences.

The CHAIRMAN. That is practically the same as the exchange fixing the differences, is it not?

Mr. BUTLER. In those days it was; yes, sir. But they were subject to change daily. That was in the old days, Mr. Chairman; that was before the passage of the act. The distinction made between commercial conditions as you have analyzed them and fixed differences

is this, that the difference was fixed for a period of time, but ours were never fixed for a period of time, but were subject to change every day by members.

The CHAIRMAN. The difference was this: Before they were fixed by the interested parties?

Mr. BUTLER. Yes, sir.

The CHAIRMAN. And after that they were fixed by the Government?

Mr. BUTLER. Quite true.

The CHAIRMAN. Or a disinterested party?

Mr. BUTLER. Yes, sir.

The CHAIRMAN. As I understand you, you are in favor of a disinterested party or the Government fixing the differences, so that there may be actual commercial differences, not arbitrary differences fixed by Congress?

Mr. BUTLER. Absolutely—well, that is what we have down in New Orleans. We have had three paid employees, besides the Government men, who aid us in connection with our quotations.

The CHAIRMAN. What have you to say as to the contention that nobody anticipates delivery in buying a contract?

Mr. BUTLER. If it is not the grade that he contemplates when he contracts it?

The CHAIRMAN. The contention is that some grade is tendered that is not a tenderable grade or not desired by the purchaser.

Mr. BUTLER. It is objectionable; it can not be tendered.

The CHAIRMAN. It can, provided it comes within the 10 grades?

Mr. BUTLER. Yes, sir; that is a risk that the man buying the contract must assume. He knows before he enters into it just what he is doing.

The CHAIRMAN. Would it not be much fairer to limit the grades deliverable on a contract?

Mr. BUTLER. No, sir.

The CHAIRMAN. I mean as to the buyer; I am not talking about the exchange.

Mr. BUTLER. No, sir. Under section 10 you can trade in specific contracts under the act. The act provides for trading in specific contracts. If you want to buy one grade, and you can get anybody to sell it to you, you can trade in it.

The CHAIRMAN. I am talking about the spinner who actually wants to use the cotton. He has to manufacture a certain grade of goods which requires a certain grade of cotton. As I understand it, the practice is to deliver something that he can not use, for that often happens.

Mr. BUTLER. That does not follow; that is not a matter of record in the last few years. The record will show that more good cotton has been tendered than low-grade cotton. Cotton averaging above middling has been tendered rather than cotton averaging below. But the contract can not be made to suit any one specific spinner.

The CHAIRMAN. The grade above may be just as objectionable to him as the grade below?

Mr. BUTLER. Absolutely; to the man that uses low grades it would be.

The CHAIRMAN. Would it not increase the value of the contract if it required the specific grade to be dilevered—I mean as to the spinner?

Mr. BUTLER. No, sir; I do not think so. It would not be traded in. It would command such a premium that the demand would be contracted and they would not trade in it.

The CHAIRMAN. Now you are speaking from the standpoint of the exchange?

Mr. BUTLER. No, sir; I am speaking from the standpoint of the trade. The exchange itself does not deal in cotton; it is only a place where the trade buys in cotton.

The CHAIRMAN. It is the medium?

Mr. BUTLER. It is the medium; yes, sir. The perfect contract would be one that you would never deliver or receive a bale of cotton on. It would pay you just as well to buy it in the open market and sell out your hedge and buy exactly what you want.

The CHAIRMAN. But that is a double transaction; you would simply have to sell what you have and buy what you need?

Mr. BUTLER. Yes, sir; but the contract is used primarily for insurance purposes. It is only a hedge against forward transactions. Rather than buy the cotton and pay the storage and insurance and other charges it is much more economical to buy against the material you have sold forward; or if you think cotton is reasonably cheap, buy the cotton and sell the contract, to protect you against the decline in cotton.

The CHAIRMAN. If you were a spinner and I entered into a contract to deliver a certain number of bales to you on a certain date, wouldn't you prefer that particular grade of cotton which you need in your business?

Mr. BUTLER. That is what I am doing all the time; that is my business.

The CHAIRMAN. I am asking, if you were a spinner and desire the cotton.

Mr. BUTLER. He can not buy just the grade he wants; he must take one of the 10 grades provided under the act.

The CHAIRMAN. And that is just where the trouble comes in?

Mr. BUTLER. No; there is not any trouble about that. The act further provides that he can buy any grade he wants if he can find anybody to sell it, but the spinner won't pay the premium which the seller would demand for selling him that contract.

The CHAIRMAN. If you would limit it to one grade, you would practically reduce it to a spot transaction.

Mr. BUTLER. Then I might sell him three, or two. He can just as well trade in two or three over that ring as one. It would not be any difference to us if we sell it to him at the prevailing differences.

The CHAIRMAN. But by providing for the delivery of the contract grade, or one below or one above, would it not be possible to operate?

Mr. BUTLER. No, sir; it would so restrict the trading that trading in futures would become so small as to become readily manipulated and as to be useless.

The CHAIRMAN. Then the limiting of the grades restricts the operation?

Mr. BUTLER. Absolutely. Besides, it bars the farmer. It would not include the bulk of the cotton grown, and any contract which

does not include the bulk of the cotton grown is certainly not a fair contract. The contract can not simply benefit the spinner or benefit the farmer; it must be fair alike to both buyer and seller.

The CHAIRMAN. Then the protection given to the buyer is simply guaranteeing the commercial differences instead of the fixed differences?

Mr. BUTLER. Yes, sir.

The CHAIRMAN. And to guarantee to deliver one of the 10 grades?

Mr. BUTLER. Or all.

The CHAIRMAN. One of them or all?

Mr. BUTLER. Yes, sir.

The CHAIRMAN. You would not be in favor, then, of having 24 grades, as is the practice in the Chicago exchange?

Mr. BUTLER. Well, I do not know just how many grades of grain there are, or just how liquid grain is.

The CHAIRMAN. How many grades did you have before the cotton-grading act?

Mr. BUTLER. Counting subdivisions, quarter grades, and colors, I think they averaged about 120.

The CHAIRMAN. And it was necessary to reduce the number of grades, was it not?

Mr. BUTLER. It is very questionable whether it was necessary to contract them as much as was done. There is quite a contention on that point in the exchange, as to whether the present contract is not too strong. I would not like to express an opinion on that at the moment.

The CHAIRMAN. It gave protection to the buyer, did it not?

Mr. BUTLER. Yes; but it eliminated the farmer's low grades, which he accumulated and which he could have sold and delivered on contract.

The CHAIRMAN. Were you present at the hearing when the cotton futures act was under consideration?

Mr. BUTLER. I did attend some of the meetings; yes, sir.

The CHAIRMAN. You recall the contention at that time. The spinners contended it was impossible to get suitable cotton under their contract, and requested that the number of grades deliverable should be limited to a certain number?

Mr. BUTLER. Yes. I was not here in March, 1919, though; I was not at that meeting.

Mr. LEE. What per cent of your trades are appealed to the Secretary of Agriculture.

Mr. BUTLER. There has been a very small percentage appealed to the Secretary of Agriculture. The buyer and seller have become accustomed to being satisfied with the decisions of the representative of the Government at the point where the trade is made. You see, the Government maintains a suboffice in New Orleans and one in New York.

Mr. LEE. I have heard that there was a very small percentage.

Mr. BUTLER. Yes; they have taken it as the law.

Mr. DUPRE. There is no legislation pending, as I understand it, Mr. Haugen, to increase the number of grades?

Mr. BUTLER. No.

The CHAIRMAN. There is no limit in the bill introduced, as I understand it.

Mr. DUPRE. I mean, specially to increase the number of grades.

The CHAIRMAN. My contention is that there should be some limit as to what is to be delivered.

Mr. DUPRE. I mean, in the matter of cotton the law is that there should be 10 tenderable grades. There is no proposition here to increase that number.

The CHAIRMAN. No; but I am trying to ascertain the advantage of limiting the grades. I believe that, in justice to all concerned, there should be some limit to that.

Mr. BUTLER. I would say this, that the grade is fairly satisfied with the present contract as it has operated in the last two years. There is some contention that the contract should be made more comprehensive, and there is a great deal of opposition on the other side.

The CHAIRMAN. I think we will agree about this, that without any specific legislation the buyer is absolutely at the mercy of the exchanges. They fix their own rules as to the grades deliverable and as to differences.

Mr. BUTLER. Well, that, of course, can not be so in the cotton exchanges; they are regulated.

The CHAIRMAN. And that regulation has improved the conditions?

Mr. BUTLER. We do not contend that the contract has not been improved.

The CHAIRMAN. And we are trying now to improve conditions as to grain. If there has been improvement as to the cotton futures it might be well to take that into consideration in framing a bill dealing with grain.

Mr. BUTLER. Of course that is something I am not familiar with; I do not know what their trade conditions are.

The CHAIRMAN. I take it you are fairly well informed as to the practices of these exchanges?

Mr. BUTLER. I know a little about cotton exchanges.

The CHAIRMAN. You are a practical man. What is the difference whether it is in cotton or grain? Does the same rule apply? If you are a spinner and you buy cotton for use in your mill, you certainly want some choice as to the grade to be delivered, and you would like to have something to say about it in determining the number of grades that could be delivered, and as to the difference in price?

Mr. BUTLER. Well, there possibly is a general principle underlying all of the trading in different commodities, but I would prefer to leave that to a grain man to discuss. I am not sufficiently familiar with it.

The CHAIRMAN. But you are familiar with the operation of the cotton exchange. You know whether it has been an advantage in the cotton business.

Mr. BUTLER. I do believe that the condition of the cotton exchanges has been wonderfully improved in the last 10 years.

The CHAIRMAN. And it has improved in this respect, that it has limited the number of grades deliverable on a contract?

Mr. BUTLER. I do not make that statement broadly, that that has been an improvement. But I do believe that the United States cotton-futures act—the fact that it has been under Government supervision is an improvement. As to whether we should have 10 grades

or 20, as other people contend, I do not know. I do know that the 10 grades have operated fairly satisfactorily under abnormal conditions, and they have only been in practice since 1919, and we have been under abnormal conditions during all that time. As to whether they will be satisfactory in normal times I do not know. I may have to come up here and ask you gentlemen to make the contract broader.

The CHAIRMAN. If you enter into a contract for the delivery of a certain article, do you not believe you are entitled to something near what you contract for, either in quality or in quantity?

Mr. BUTLER. Yes, sir. But the difference at present is only two full grades. You buy middling, and you can get either good middling or low middling, which are the two grades around it. And any cotton man can use those. He can go out and sell them in the market if he does not need them.

The CHAIRMAN. But he can not use them.

Mr. BUTLER. Then he can sell them for exactly what he gets them for.

The CHAIRMAN. I understand, but you must also take into consideration the manipulation in the different grades.

Mr. BUTLER. But the more you contract it the greater the manipulation would be. If we should have a crop disaster so that only low grades would be deliverable, nobody would sell a contract if he were compelled to deliver only high grade.

The CHAIRMAN. Suppose you were a miller, delivering only a certain quality of flour, advertising it, and required No. 1 or No. 2 wheat, which would produce the particular brand of flour that you make. You could not use the No. 5 or No. 6 grade. Would you be in favor of accepting No. 5 or No. 6?

Mr. BUTLER. Of course, I would not buy the contract for the purpose of completing my specific contract; I would buy the contract as a price insurance and protection against the advance in wheat, and when the time came for me to buy the wheat that I required I would sell out my contract and buy spot wheat and get exactly what I wanted.

The CHAIRMAN. Then you believe that under a contract for, say, 100 Percheron horses, 100 jackasses should be delivered?

Mr. BUTLER. No, sir. If a man was going to hedge on horses and he got jackasses, when the time came he would sell them and buy horses.

The CHAIRMAN. That is on a parity with the other proposition.

Mr. BUTLER. Not exactly.

The CHAIRMAN. Then, as I understand you, nobody contemplates delivery on any contract?

Mr. BUTLER. No, sir. You must contemplate delivery, and the party buying your contract must buy it in every respect the same as you made it, and somebody must ultimately fulfill that contract.

The CHAIRMAN. I say, they buy it anticipating that they will sell their contract and buy the actual wheat they require.

Mr. BUTLER. The contract is simply used as an insurance against an advance or a decline.

The CHAIRMAN. That reduces it simply down to a speculation.

Mr. BUTLER. No, sir. It is not a speculation, it is to guard against speculation.

The CHAIRMAN. Nobody can go into the exchange and buy anything, any certain number of bales or bushels, with the expectation of gettting exactly what he bargains for or anything that he can use.

Mr. BUTLER. Why, that depends entirely on what he can use. If it is within the grades specified by the United States cotton futures act he can not get anything else.

The CHAIRMAN. And he will get one of the 10 grades.

Mr. BUTLER. He may get them all, in different quantities.

The CHAIRMAN. I am talking about the contract; what can he demand under that contract?

Mr. BUTLER. He can not make any specific demand, except to know that he is required to take those 10 grades.

The CHAIRMAN. He can demand the exact number of pounds; there is no question about that?

Mr. BUTLER. Yes.

The CHAIRMAN. But he has nothing to say as to the grade or quality to be delivered?

Mr. BUTLER. No, sir.

The CHAIRMAN. That is left entirely to the exchange?

Mr. BUTLER. Let us put it the other way around. Suppose you say you want to sell only three grades of cotton, and I am a farmer and I do not produce any one of those three grades. Haven't I got the right to sell my cotton on that contract? Is it fair to me? Say we make it five grades, and say those five grades are high grades, all of them, and through weather disaster, over which I had no control, my crop would turn out all low grade. Then I could not deliver my crop.

The CHAIRMAN. That would be his affair; if he entered into a contract to deliver a certain grade or a certain number of bushels or bales he must live up to that contract.

Mr. BUTLER. Yes, sir. But would it not be equally fair if the spinner bought his contract knowing that he would get those 10 grades, or why should he enter into the contract?

The CHAIRMAN. There is a difference in the contract. If he enters into a contract of that kind he must accept it.

Mr. BUTLER. Well, that is the proposition to-day. But he then has a further privilege; he can liquidate that contract by finding a third party who will assume the same conditions that he assumed when he bought the contract, and buy his cotton in the open market. In the meanwhile he has been protected against an advance in price all the time.

The CHAIRMAN. That simply reduces it down to an insurance proposition.

Mr. BUTLER. That is it. We do not contend, Mr. Chairman, that it is a perfect contract, but I say it is the best insurance that we have to-day on cotton.

The CHAIRMAN. That is exactly the point I wanted to get at. I am glad you make that frank statement.

Mr. BUTLER. That is correct.

The CHAIRMAN. But you were saying a little while ago that the farmer might sell?

Mr. BUTLER. That is, the farmer can sell equally as anybody else.

The CHAIRMAN. I understood you to say he could not sell his cotton.

Mr. BUTLER. Yes, sir; on the contract. The farmer might have sold his cotton on contract last July. Say his contract matured in December. In November he might have sold his cotton to even better advantage in the open market and bought back his contract.

The CHAIRMAN. All right; the farmer can sell, but the spinner can not buy what he wants.

Mr. BUTLER. Oh, yes; he can.

The CHAIRMAN. Not according to that.

Mr. BUTLER. It all depends on what sort of mill he runs. If he runs a mill that uses Egyptian cotton he could not buy American or Indian cotton, but if he used the grades within that contract he could protect himself by buying that contract.

Mr. CARAWAY. With the permission of the committee, not being a member of the committee, I just want to ask a question or two. Did I understand you, Mr. Butler, to say that the restriction of grades hurt the farmer?

Mr. BUTLER. I am rather of that opinion, Mr. Caraway, that the restricting of the grades will hurt the farmer materially.

Mr. CARAWAY. You think the present cotton-futures act does not benefit the farmer?

Mr. BUTLER. I did not think it did.

Mr. CARAWAY. It hurts him?

Mr. BUTLER. I am rather inclined to think it did.

Mr. CARAWAY. It helped the spinner?

Mr. BUTLER. To a reasonable extent.

Mr. CARAWAY. Well, if any benefit came from it to anybody at all it came to the spinner.

Have you read the speech by Senator Comer, of Alabama, on the 6th day of May last year, in support of his bill to force delivery of certain high and low grades?

Mr. BUTLER. Yes, sir. I do not know what the specific day was, but I read all of Senator Comer's speeches.

Mr. CARAWAY. It was interesting, wasn't it?

Mr. BUTLER. It was very interesting.

Mr. CARAWAY. Do you agree with him that they manipulated the exchanges to the hurt of the spinners last year? That your own exchange, for instance, was manipulated?

Mr. BUTLER. No, sir; I do not agree with that.

Mr. CARAWAY. He made that statement.

Mr. BUTLER. He made statements to that effect, I believe; yes, sir.

Mr. CARAWAY. He offered in evidence certain actual cotton that was tendered him through some firm that dealt on your exchange under the present bill.

Mr. BUTLER. No, sir. I remember just what you refer to—100 bales of cotton received through Atkinson & Lowry, on the New Orleans Cotton Exchange, and 100 received through Carpenter, at New York, I believe. Those were under the old contract, not under the present contract.

Mr. CARAWAY. He said they were under the Smith-Lever Act, you know.

Mr. BUTLER. Yes; but not as amended—under the previous Smith-Lever Act.

Mr. CARAWAY. Well, it will not do any good to dispute about that; I have it right here.

Mr. BUTLER. I know it very well. Am I not correct in stating that it was a contract received from Carpenter, in New York——

Mr. CARAWAY. Yes; the only thing you are not correct about is that the cotton was received under the present cotton-futures act.

Mr. BUTLER. It was received under the present cotton-futures act, but not as amended March 4, 1919. It was under the old act.

Mr. CARAWAY. No; he says he got it under the present act.

Mr. BUTLER. Well, he is mistaken. If you will read the date of the contract it will prove that.

Mr. CARAWAY. He said he thought the exchanges were going to function, and they did not; that the poor spinners who went into the market were cleaned out under the manipulation of the price. He said the price was fictitious and the manipulation was injurious. You recall that?

Mr. BUTLER. Yes; I remember a good deal of that.

Mr. CARAWAY. He is rather a big contractor or spinner of cotton, is he not?

Mr. BUTLER. Yes, sir.

Mr. CARAWAY. And he ought to know what he is talking about?

Mr. BUTLER. Probably; from a mill standpoint.

Mr. CARAWAY. From the standpoint of a buyer of future cotton contracts, he ought to know?

Mr. BUTLER. I should think so.

Mr. CARAWAY. He owns more spindles than any other man in the South, doesn't he?

Mr. BUTLER. I do not know that to be a fact.

Mr. CARAWAY. Eight mills, as I recall; about 200,000 spindles.

Mr. LEE. I should not think so, Mr. Caraway.

Mr. CARAWAY. I got that impression; I know he is a very extensive owner. He is familiar with the exchanges, and that was his contention, that the present law permitted the manipulation of the exchanges. Now, had his bill become effective it would have made the spinners rich, would it not?

Mr. BUTLER. It would have closed the exchanges in my opinion. The spinners would, I think, have become rich by the operation of combines and would have dictated the price of cotton in the South, just like the price of cotton was dictated in 1914, when cotton sold at 6 cents.

Mr. CARAWAY. Do you think that was because of the exchanges closing?

Mr. BUTLER. I think that had a lot to do with it. Cotton advanced from the day the exchange opened.

Mr. CARAWAY. If the exchanges made the price advance what made the prices fall this last year, 1920? The exchanges were open all the time and cotton fell from March to the present date.

Mr. BUTLER. It fell due to financial conditions abroad, impoverishment of Europe, decline in foreign exchange, the inability to buy cotton, and the lack of demand.

Mr. CARAWAY. In 1914 the exchanges were closed, every bale of cotton, that we formerly exported, was kept at home not because the exchanges were closed, but because of the war in Europe.

Mr. BUTLER. Yes, sir; certainly, financial conditions were disturbed again.

Mr. CARAWAY. You could not get a ship to carry a bale.

Mr. BUTLER. There were lots of ships in 1914—freight was cheap in 1914. Shipments did not come to a standstill until late in 1915.

Mr. CARAWAY. You could not export a bale in 1914.

Mr. BUTLER. In 1914 we exported 250,000 bales.

Mr. CARAWAY. What month?

Mr. BUTLER. We started in the month of October and exported it to the end of the year.

Mr. CARAWAY. Cotton low prices came in September and October.

Mr. BUTLER. The exchange closed on the 1st of August—the day that war was declared. The breaks came in August and September.

Mr. CARAWAY. You will recall that in 1914 we grew the biggest cotton crop ever grown. The crop then was 17,000,000 bales.

Mr. BUTLER. Yes; that was another cause.

Mr. CARAWAY. In 1920 we grew 12,000,000 bales?

Mr. BUTLER. Yes.

Mr. CARAWAY. The world was at peace and there is no stock market now at all, is there?

Mr. BUTLER. Oh, yes; cotton is being bought every day in limited quantities, not as freely as we would wish. There is not sufficient demand to absorb daily offerings. We had to carry about 5,000,000 bales at the end of this season.

Mr. CARAWAY. I wanted to ask you: You spoke about the fixed differences. Under the old method the difference was not fixed by the exchange but was fixed for a certain length of time?

Mr. BUTLER. It was fixed by the exchanges, too.

Mr. CARAWAY. I know; for a certain length of time.

Mr. BUTLER. Quite right.

Mr. CARAWAY. This commercial value price was fixed for so many days?

Mr. BUTLER. That is right.

Mr. CARAWAY. You speak of this present act as being satisfactory to the trade. What do you mean by "the trade"?

Mr. BUTLER. By the trade I mean the farmer, the merchant, the banker, and the spinner.

Mr. CARAWAY. Do you think the farmer is satisfied with the present bill?

Mr. BUTLER. I am sure those who are familiar with it, who know anything about it, are satisfied—quite certain.

Mr. CARAWAY. I had a brother who went into it and got satisfied for all he had; it did not take him long to become satisfied.

Mr. BUTLER. I would say, Mr. Caraway, that there are probably a great many people who lose money in cotton. The percentage of people who make money in cotton are no larger than in other fields or in other lines.

Mr. CARAWAY. You do not apprehend that any great number of farmers actually hedge on the cotton market in advance of their planting.

Mr. BUTLER. I do not trade to any great extent directly with farmers. I do not know. I buy from the factory or from the country merchant, who, in turn, trades with the farmer.

Mr. CARAWAY. On your exchange there is not any considerable number of actual growers of cotton who hedge?

Mr. BUTLER. No; they are not familiar with the method and do not take advantage of it. But they do hedge indirectly through the cotton merchant, who takes their cotton up or who advances against their cotton. He does it for them to a very great extent and it is on the increase yearly.

Mr. CARAWAY. He advances him on a mortgage, does he not?

Mr. BUTLER. Yes; a mortgage on the crop or plantation.

Mr. CARAWAY. Or teams.

Mr. BUTLER. Yes.

Mr. CARAWAY. That is not hedging on your exchange, is it?

Mr. BUTLER. No, sir.

Mr. CARAWAY. He does not buy the cotton.

Mr. BUTLER. Oh, yes; he has an assignment of the cotton against this, and he in turn hedges against it.

Mr. CARAWAY. Is that the rule of Louisiana?

Mr. BUTLER. That has been the rule pretty near throughout Louisiana and Mississippi for a good many years.

Mr. CARAWAY. It does not prevail at all in my State. It did not prevail when I used to grow a little cotton in Concordia Parish in your State.

Mr. BUTLER. I am told in the western country it does prevail to a very great extent.

Mr. CARAWAY. That when a merchant takes a mortgage on a share cropper who is going to grow cotton that he takes the assignment of the cotton and actually sells the cotton?

Mr. BUTLER. Yes. He has the cotton assigned, to a great extent, and the land and everything; he gets as good protection as he can, I think.

Mr. CARAWAY. No; he takes a mortgage.

Mr. BUTLER. The bulk of the crop is not grown that way; it is grown on the shares.

Mr. CARAWAY. But the man who finally takes the mortgage on everything he has.

Mr. BUTLER. Yes; including the cotton.

Mr. CARAWAY. It does not include nor does it contemplate the delivery of actual cotton to him, but the proceeds of it.

Mr. BUTLER. That is not the way in our country; it is not the way in Mississippi. In Brookhaven I have a good deal of occasion to trade, and I know the methods for cotton assignment. Mr. Bean is from Georgia and he is familiar with it.

Mr. BEAN. I would say that in 1909 cotton was rather high, comparatively, and there were several hundred thousand bales sold by planters and merchants and farmers to my knowledge at 10 or 11 cents, and the market got around 14 or 15 cents and they did not deliver but laid down and broke most all the dealers. But they intended to take advantage of selling cotton; they sold cotton for delivery 60 or 90 days in the future.

Mr. CARAWAY. The farmer can not sell on 60 or 90 days when he has not planted his cotton crop.

Mr. BEAN. I mean in the summer, when thye expect it to come along and get cotton in September, October, or November.

Mr. CARAWAY. He did not sell through the exchange; he went to some spinner and sold?

Mr. BEAN. No, sir; he did not; because the spinner would not buy his various grades; he came to a buyer.

Mr. CARAWAY. But he sold you specific rates?

Mr. BEAN. No; he sold me basic grades, middlings.

Mr. CARAWAY. A fixed price of so much a pound for any he might have, general run.

Mr. BEAN. The differences existed at the time of delivery?

Mr. CARAWAY. You were to take the general run, but the price was to be determined when delivered?

Mr. BEAN. No. The price was to be determined at the time of the sale, and I, in turn, immediately went to the future market and sold contracts against him.

Mr. CARAWAY. What do you mean by "price determined." He had a certain number of bales of cotton of fixed grade and you were to pay him so much for them?

Mr. BEAN. He would say "I want to sell 200 bales of middling cotton." "All right; middling cotton is worth 10 to-day. I will bid 10, differences existing at the time of selling."

Mr. CARAWAY. What do you mean by that?

Mr. BEAN. If strict middling was worth ¼ middling was worth 10, and if he delivered strict middling I would pay him 10¼.

Mr. CARAWAY. Did you just pay him the money or receive his cotton?

Mr. BEAN. Received his cotton.

Mr. CARAWAY. At the time of sale you paid him for the entire cotton; you gave him no money?

Mr. BEAN. No, sir.

Mr. CARAWAY. But he has to have money; he could not market his crop to one person.

Mr. BEAN. I will tell you what he did. Here is what he did. He made this contract. We entered into the contract; I simply took his word for it.

He was a good man. The bank investigated him and said he was a good man. When the market subsequently went up and the time of delivery came, he did not deliver, and I had the cotton sold to the spinner on the contract and I had to take the loss.

Mr. CARAWAY. You went and sued him to make him pay you?

Mr. BEAN. No, sir; I did not collect a cent.

Mr. CARAWAY. What was wrong with it?

Mr. BEAN. The jury some how or other did not see fit to decide in my favor.

Mr. CARAWAY. The jury did not approve of your particular plan of doing business and settled against you?

Mr. BEAN. I imagine that somewhere near 500,000 bales were sold in Georgia for delivery?

Mr. CARAWAY. What was wrong with the contract that is was not enforcible?

Mr. BEAN. Some got judgment, but they did not have any money.

Mr. CARAWAY. What was wrong with your contract that you could not enforce it?

Mr. BEAN. I could not enforce delivery.

Mr. CARAWAY. You could not enforce delivery, of course.

Mr. BEAN. We could get judgment all right.

Mr. CARAWAY. And then could not collect.

Mr. BEAN. Very often they did not have anything to pay.

Mr. CARAWAY. I thought you said the jury decided against you.

Mr. BEAN. Sometimes they did.

Mr. CARAWAY. How was the question submittable to a jury if you had a positive contract?

Mr. BEAN. People do not always live up to their contracts.

Mr. CARAWAY. But you had positive contract, and the court would construe that and not leave it to a jury.

Mr. BEAN. In some instances the court did and in some instances it did not. There is a large cotton man in Burke County who runs about 8,000 plows——

Mr. CARAWAY. 8,000 plows?

Mr. BEAN. He has an enormous amount of land.

Mr. LEE. Probably 800.

Mr. BEAN. It is big enough.

Mr. CARAWAY. That would be quite a large plantation.

Mr. BEAN. It broke him that way.

Mr. CARAWAY. Which broke him, the growing or the buying?

Mr. BEAN. Both. I think failure of the people to deliver cotton practically cost him all of his fortune.

Mr. CARAWAY. The cotton future act woud have nothing to do with that kind of a transaction?

Mr. BEAN. Yes; it would. The buyer of cotton could not buy unless he had a contract market to protect him.

Mr. CARAWAY. If you had a contract market you did not lose anything, then?

Mr. BEAN. Sure, I did.

Mr. CARAWAY. The contract market did not protect you. How would it protect anybody else?

Mr. BEAN. It would protect me if the other man should not lay down.

Mr. CARAWAY. Then, in contemplation of the fact that he did lay down you lost. The future contract did not take care of your kind of a situation.

Mr. BEAN. Just the same as if you had an insurance policy, you died and the company would not pay.

Mr. CARAWAY. Did you appear before this committee in 1919 in opposition to the cotton futures act or in support of it?

Mr. BEAN. I was not here in 1919—no; I was not at that time; I was unable to attend in 1916.

Mr. CARAWAY. Did you furnish a brief?

Mr. BEAN. No, sir.

Mr. CARAWAY. You expressed no opinion about whether it was good or bad legislation?

Mr. BUTLER. Not that year; I was not on the committee. I was abroad and did not attend.

Mr. CARAWAY. You say you do not know Mr. Calvin?

Mr. BUTLER. Yes; I do know Mr. Calvin; I did not make that statement.

Mr. CARAWAY. Do you know whether anyone dealing in futures ever financed Mr. Calvin's appearance here before this committee?

Mr. BUTLER. No; I do not.

Mr. CARAWAY. No member of the exchange?

Mr. BUTLER. I do not.

Mr. CARAWAY. Did you ever hear that that was true?

Mr. BUTLER. No, sir; I never heard it.

Mr. CARAWAY. Were any instructions ever sent him by the exchange or any member, do you know?

Mr. BUTLER. I do not know.

Mr. CARAWAY. Do you know Mr. Pope, of Texas?

Mr. BUTLER. I do not know him; no, sir.

Mr. CARAWAY. You never heard of him?

Mr. BUTLER. I have heard of him.

Mr. CARAWAY. What did you ever hear about him?

Mr. BUTLER. He is connected with some farmer's union.

Mr. CARAWAY. How came the knowledge of this fact of the union to the exchange?

Mr. BUTLER. I do not say that it came to me as a member of the exchange, but it is general knowledge among those buying cotton.

Mr. CARAWAY. Pope sent a telegram about the futures act from New Orleans, though he lived in Texas?

Mr. BUTLER. Pope?

Mr. CARAWAY. Yes.

Mr. BUTLER. I do not know it.

Mr. CARAWAY. You do not know that to be true?

Mr. BUTLER. No, sir.

Mr. SUMMERS. You state that if the act offered by Senator Comer was passed, in your judgment, it would have put the exchanges out of business?

Mr. BUTLER. Yes, sir.

Mr. SUMMERS. Exchanges, according to your judgment, could not operate if they were limited to contracts upon which specific rates were deliverable?

Mr. BUTLER. No, sir; they could not operate.

Mr. SUMMERS. You stated that while the privilege obtained for dealing in specific rates through your exchange, that the premium that would be required would be so great that the spinner would not pay it and would prefer to get his cotton through the ordinary cotton merchant?

Mr. BUTLER. You are quite right.

Mr. SUMMERS. Could you give us any judgment as to about what the premium would be, as a practical cotton man or as a member of the exchange?

Mr. BUTLER. It would depend entirely upon what time of the year the man wished to make that contract. For instance, if a man wishes to make a specific grade contract for good middling cotton in the month of May before it is grown, and I do not know what the weather conditions are going to prevail at the time of harvesting, I would ask him a material premium for it. If he asked for such a contract for the month of September, which I had to deliver to him next month, and a certain portion of that cotton was available, my premium would be considerably less, and our spot business is carried on exactly on that basis. We are compelled to take that risk in the export business, and it depends entirely on our judgment as

to whether they are good or bad risks as to the amount of money we make or lose.

Mr. SUMMERS. Members of the committee and myself, just an ordinary Member of Congress, do not quite know what you mean by "a considerable," and I understand full well your difficulty, too.

Mr. BUTLER. Possibly we might refer to the record, which might be an example of what it could be. The premium on good middling cotton, we will say, for the year 1912, was probably about 50 points over middling. In the year 1918 it sold at a thousand over middling, or a difference of $47.50 a bale premium. That is how much it fluctuated during the war.

Mr. SUMMERS. That is a premium over middling, but not a premium over middling quotations fixed on the basis of commercial difference. If you were discussing this matter from the standpoint of making a specific delivery to a spinner, is it?

Mr. BUTLER. I do not quite grasp the question. That is a premium it would bring for that grade of cotton over middling cotton selling that day. We would sell middling cotton at that discount—if that is the answer.

Mr. SUMMERS. Let me ask you this question: If on a date in October, middling cotton was selling along about 15 cents—that is the basic grade?

Mr. BUTLER. Yes.

Mr. SUMMERS. And the spinner should want to make a contract with you through the future board for a thousand bales of middling cotton, how much premium would you charge to make that sort of a contract, above the contract where you would be privileged to deliver in any commercial cotton at commercial value difference?

Mr. BUTLER. Oh, probably 25 to 100 points, depending entirely upon what the outlook was ahead in the next three or four months, by the time he wished delivery. It would depend entirely on those things.

Mr. SUMMERS. Twenty-five to 100 points?

Mr. BUTLER. Yes.

Mr. SUMMERS. Would you mind telling us under the ordinary method and profits of the cotton merchant how much they would charge a spinner to get together for him, say, 1,000 bales of middling cotton, and how much premium above the quotations on the future board on that given day?

Mr. BUTLER. You mean what profit the ordinary cotton man makes on it?

Mr. SUMMERS. Yes.

Mr. BUTLER. Why, I should think under present conditions, with the risks of financing and of storage charges and congestion that we have, the cotton men work on an average of $2 a bale, or something of that sort; that is, they start out with that prospect in view. They very often wind up the other way, but on the average that is what they try to struggle for, something of that sort. I think the factorage end of it sold on fixed commission is 1 or 2 per cent, where they do not assume the risks.

Mr. SANDERS of New York. Mr. Butler, we have heard a good deal about farmers. As a matter of fact, farmers do not generally ever sell futures against their cotton crops?

Mr. BUTLER. I do not think they take the advantage directly.

Mr. SANDERS of New York. As a matter of fact, of course, the short sellers, owing to the condition of cotton, foreign markets, and all that sort of thing, are in a better position to determine future markets than the farmer?

Mr. BUTLER. Yes.

Mr. SANDERS of New York. The result is that he sells to the short market, and when the farmer comes to sell goods the market drops and there is no market for it because he has anticipated a difference in the situation. Is not that generally true?

Mr. BUTLER. That is not exactly the situation.

Mr. SANDERS of New York. But in this situation.

Mr. BUTLER. That is not absolutely true; no, sir.

Mr. SANDERS of New York. In other words, when the farmer came to sell his crop he found it short-sold by the operator.

Mr. BUTLER. No, sir; I do not think that has been the case at all this year; on the contrary, the farmer in Texas began to sell his cotton in August.

Mr. SANDERS of New York. Spot cotton?

Mr. BUTLER. Spot cotton, right from the inception of the crop in August. We bought considerable cotton over 30 cents a pound in August and September, right on up to the end of September, and cotton continued as the crop matured and the weather conditions improved, and the crop got larger and larger, and the lack of demand abroad asserted itself due to financial conditions. People bought cotton on every decline, thinking it would react and were compelled to hedge, merchants who would not have bought a bale; of course, the farmer found he had more cotton than there was any demand for, and he continued to offer it down until to-day he is offering it under the future price at present.

Mr. SANDERS of New York. Generally speaking, however, the future market was continuing?

Mr. BUTLER. The future market visualizes that it is not the cause at all—it is the law of supply and demand.

Mr. SANDERS of New York. Future trading?

Mr. BUTLER. It is due to the fact that the farmer has not sufficient knowledge. That is not his own fault, but he can benefit himself by it, and all the other factors of the trade are sufficiently informed to take advantage of it and buy his cotton, such as the country merchant, who would not buy at all. I believe that but for future trading we would have had a sheer drop of 5 or 6 cents.

Mr. CARAWAY. If the farmer were to go in and take advantage of the market, who would stand the loss?

Mr. BUTLER. The loss is shared in a great many ways. One of the biggest standers of losses in the cotton market is the exporter. His cotton is always on the wrong side.

Mr. CARAWAY. The exporter?

Mr. BUTLER. In the future market. That is rather a remarkable statement to make.

Mr. CARAWAY. Why does he keep going back into it?

Mr. BUTLER. I wanted to answer your question directly. It just struck me as being a remarkable statement to make but it is so, and I think I can prove it.

Mr. CARAWAY. If one man makes on the market the other fellow must lose it; must he not?

Mr. BUTLER. Yes, sir.

Mr. CARAWAY. That is self evident?

Mr. BUTLER. Yes, sir.

Mr. CARAWAY. Under the present market, who is the beneficiary? The farmer, this gentleman said, has nothing to do with it. Who is the beneficiary under the present market?

Mr. BUTLER. It is very difficult to say who has been the beneficiary.

Mr. CARAWAY. The spinner never loses it because he never made such profits in his life as he made under the present futures act.

Mr. BUTLER. That was on last year's crop. The dividends are on the previous year.

Mr. CARAWAY. The spinners have, since this act has been in operation, declared the biggest dividends ever made. They have not lost anything, have they?

Mr. BUTLER. This year I have known several of the largest failures ever recorded in the cotton trade abroad.

Mr. CARAWAY. The spinners here paid the biggest dividends they ever have?

Mr. BUTLER. Last year?

Mr. CARAWAY. Oh, yes; on December 31 and the 1st day of this year, together. They have not lost anything?

Mr. BUTLER. No.

Mr. CARAWAY. The dealers on the exchanges have been selling seats higher than they were ever sold?

Mr. BUTLER. No, sir; they declined from $15,200 in July to $8,000 in the last few days.

Mr. CARAWAY. These gentlemen have been putting in the record some phenomenal prices of seats.

Mr. BUTLER. Not on the exchanges—$15,000 was the highest.

Mr. CARAWAY. That is New Orleans?

Mr. BUTLER. Yes.

Mr. CARAWAY. New York seats sold up around $100,000.

Mr. BUTLER. New York seats sold as high as $26,000.

Mr. CARAWAY. I beg your pardon.

Mr. BUTLER. I beg your pardon; I own one and I would have sold mine at $100,000.

Mr. LEE. One is the stock exchange and the other is the cotton exchange.

Mr. CARAWAY. I know the difference.

Mr. BUTLER. The cotton exchange has never sold a seat at $100,000—$27,000 is the maximum.

Mr. CARAWAY. I would like to read you what Mr. Comer said about exchanges. You said I was wrong about it. I am reading from the Congressional Record of May 8, although the speech was made May 6 and was printed in the Record on the 8th. It appears at page 7272. Answering the question as to whether exchanges were places to sell cotton or merely places to insure, Senator Comer said [reading]:

To be sure. That is what it is for. That is its function; and let me tell you, Senator, since you have brought up that question, this last year we all thought that the Smith-Lever bill was going to do. We all thought the amendment had accomplished its purpose—

He is talking about the amendment—

and the contract market went along smoothly until last fall. Last summer and early fall the exchange prices were running along with the spot cotton

prices, and there were thousands of dealers who sold middling and above based on the exchange price. They sold cotton and then bought futures; but in less than 60 days there was a revolution in the exchanges. Spot middling and above advanced from 200 to 300 points. It went up just like this; and those unfortunate dealers, trusting your law for protection, had sold spot cotton middling and above, basis contract middling, depending on the proper functioning of the exchanges because of the last amendment to the Smith-Lever bill lost tens of thousands of dollars, all because the exchanges failed to function as Mr. Thompson said they should.

It was wrong, it was wrong. They had insured in the exchanges. They had a right to expect the exchange to function in the way the law intended they should function and the right to believe they were protected. Not merely in my section of the country, but all through the country those people who trusted in the exchange market as it existed then, and sold the higher grades of cotton, middling and above, suffered because they did not anticipate that the exchanges would permit this great difference between the middling basis and the middling spots—a difference that was factitiously accomplished.

That is what he said.

Mr. BUTLER. That is not according to the records in the exchanges. The record will prove that the contracts sold at a premium.

Mr. CARAWAY. That is according to the record he made.

Mr. BUTLER. I would like to have the privilege of putting in the record data on this subject.

Mr. CARAWAY. That is fair, but that is what he said.

Mr. BUTLER. Every year since March 4, 1919.

Mr. CARAWAY. If there is no way to manipulate the exchanges, why was the limit of 200 points fixed, beyond which fluctuation in a day might not extend?

Mr. BUTLER. The reason that a limit of 200 points was fixed was simply that under abnormal war conditions the futures market is a great deal more sensitive than the spot market.

Mr. CARAWAY. Very sensitive to what?

Mr. BUTLER. Sensitive to conditions that occur with the world.

Mr. CARAWAY. Sensitive to conditions that occur on the exchanges?

Mr. BUTLER. No; not upon the exchanges, which occur in the world, such as the 1st of February affair—the declaration of unrestricted submarine warfare which affected the price of cotton materially on that day, and other different war rumors. It was a war measure suggested by the Bureau of Markets originally and adopted by the cotton exchanges later.

Mr. CARAWAY. What effect did it have?

Mr. BUTLER. It had the effect of stabilizing cotton to a very great extent.

Mr. CARAWAY. If they had cut it down to 100, would that have stabilized it?

Mr. BUTLER. No, sir; that would not have been a sufficient market to allow trading.

Mr. CARAWAY. That 200 was sufficient?

Mr. BUTLER. Two hundred helped sufficiently, and allowed sufficient liquidation. If you had reduced it to 100 there might have been 100 decline and then an actual decline of 100 on the opening next day and a further decline of another 100. If the market was in better condition to open the next day.

Mr. CARAWAY. So the object of the future exchanges——

Mr. BUTLER (interposing). The cotton exchange has adopted that rule since the Government abandoned it, both here and in New York. We do not allow more than 200 point fluctuation.

Mr. CARAWAY. Who does it benefit?

Mr. BUTLER. The whole trade. If the psychological mind of the public is given time to think of it overnight, that is better than to be thrown in a panic up or down, because cotton has gone the limit.

Mr. CARAWAY. You do admit that the psychology of trading in futures affects the market?

Mr. BUTLER. Undoubtedly.

Mr. CARAWAY. And therefore it would depress the market if there was an abnormal selling, would it not?

Mr. BUTLER. Yes; it puts it up, too, for a while. But the ultimate result is the law of supply and demand. It will temporarily go too high or too low. I never held a brief that it is perfect, but I do not know anything better as an insurance policy.

Mr. CARAWAY. If there was any such thing as concerted selling, they can beat the market down?

Mr. BUTLER. For a while, but they have got to settle eventually.

Mr. CARAWAY. For a long time.

Mr. BUTLER. That is problematical; you can not tell.

Mr. CARAWAY. For a season.

Mr. BUTLER. Oh, no—no chance; it is impossible. There has never been anybody who has successfully manipulated the market and gotten away with it that I know of. They have all gone on the rocks.

Mr. CARAWAY. I know, but they put a good many people on the rocks before they get there.

Mr. BUTLER. How is that?

Mr. CARAWAY. They put a good many people on the rocks before they get there?

Mr. BUTLER. Before they tried to?

Mr. CARAWAY. No; before they went broke.

Mr. BUTLER. That may be true; there may have been some unwise speculation in the market from time to time.

Mr. CARAWAY. Why, if you can, by psychology beat down the market for a day, week, or month, was it an unconcerted movement which kept permanently deflated—when does the psychology cease to connect?

Mr. BUTLER. For the simple reason there is no power of mind—it would only cease to act when they stop growing cotton. You might have to take a whole crop or you might have to buy two or three crops or may have to deliver two or three. It is open to the world, and if the demand is there you could not control it any length of time. Whenever there is a new crop it stops that.

Mr. CARAWAY. You might control one crop?

Mr. BUTLER. It has never been attempted.

Mr. CARAWAY. You do not think there has ever been any attempt of that kind?

Mr. BUTLER. No; no more than you could keep Liberty bonds at 83 for the next 20 years.

Mr. CARAWAY. Have there not been raids on the market?

Mr. BUTLER. We have heard those rumors; I have never known of any concerted raids.

Mr. CARAWAY. You never did?

Mr. BUTLER. I have known of people becoming panic stricken and everybody trying to sell at a time, but I have never known of any concerted action to depress the market or to put it up.

Mr. CARAWAY. If the future market can either depress or elevate the market, what purpose does it serve?

Mr. BUTLER. It serves the purpose of insurance, with this necessary condition——

Mr. CARAWAY (interposing). Who furnishes the insurance money and who pays the losses?

Mr. BUTLER. The losses are paid by the men who guess wrong on the thing—why, the trade—the men in the trade, plus the speculator. Ninety per cent of the speculators lose.

Mr. CARAWAY. Mr. Butler, what factor influences the fixing of future markets in advance even at the planting of the crop—I am talking now about cotton.

Mr. BUTLER. They are so numerous, I would not like to undertake to say all of them—weather condition forecasts, trade demands ahead, statistics as to stocks, and numerous other conditions; world conditions, finances, freights, and so on.

Mr. CARAWAY. Weather conditions could not determine it when the crop is not planted, could it?

Mr. BUTLER. Yes; when it is not planted.

Mr. CARAWAY. How?

Mr. BUTLER. Oh, they have to have proper seasoning in the ground long before the next crop is planted. We watch the weather, what the prospects are for next year, what are the purchases of fertilizer, what the crop prospects——

Mr. CARAWAY. I am talking about the weather, not the fertilizer.

Mr. BUTLER. Yes; the weather conditions do enter—how much snow, and the rainfall we have in the arid sections throughout the winter.

Mr. CARAWAY. Does that affect it through the winter?

Mr. BUTLER. Absolutely, adversely or favorably, whether these conditions are favorable or adverse.

Mr. CARAWAY. They do not grow the cotton, then?

Mr. BUTLER. No, sir. But the growing of the cotton depends upon these conditions. If you have no rains in west Texas, which is an arid country, it is dead certain that you are not going to produce a crop there next year. That is a sure thing.

Mr. CARAWAY. And those conditions determine in advance of the fact that you do not know how many bales will be grown?

Mr. BUTLER. Those are contributing factors; they do not invariably govern.

Mr. JACOWAY. Suppose a spinner goes to you, as a broker, and buys from 1,000,000 bales of cotton, we will say, of a certain grade. Now, would it be possible for him, who has sold that cotton to go on the exchanges and beat the price of that cotton down so that he could get it just as cheap as he could or below the price at which he sold to you?

Mr. BUTLER. No, sir; I do not think he could. That would be an extraordinary trade—a million bales. We have had as much as 50,000, but never more than that.

Mr. JACOWAY. Say 250,000 bales—that would break the market?

Mr. BUTLER. That would be an extraordinary sale in a day for any one firm.

Mr. JACOWAY. How many bales would it take to break the market?

Mr. BUTLER. The biggest sale my firm and Anderson-Clayton entered into was about 100,000 bales, sold to the Government syndicate for Czechoslovakia. I do not know of any individual sale of cotton any larger.

Mr. SUMMERS. I am just speaking of the policy or theory of that kind of a transaction. Would it be possible to bear the market much lower than they sold it to you, and would not that give to the farmer a lower price than he would ever have received?

Mr. BUTLER. He would have to control a number of factors to be able to succeed. I do not think he could succeed. Conditions would have to be entirely favorable. The whole world would be against the man who put it down; if he put it too low he could not cover it——

Mr. JACOWAY. You say a hedge is an insurance policy.

Mr. BUTLER. Yes, sir.

Mr. JACOWAY. But you state to the committee that that is an insurance policy to the man who raises the stuff?

Mr. BUTLER. Yes; if he wishes to avail himself of it as his crop progresses.

Mr. JACOWAY. I am talking about as it has existed in the past, has it been an insurance policy to him?

Mr. BUTLER. Yes; wherever he has availed himself of the advancing and the planting market, it has been, or he has secured a price he is willing to take.

Mr. JACOWAY. That is, where he would buy on the exchanges, he has a hedge?

Mr. BUTLER. Yes; through his commission merchants or brokers; yes.

Mr. JACOWAY. Just the average run of farmers in the cotton belt. 812 cotton-growing counties; they do not go on the exchanges?

Mr. BUTLER. No; many of them do not.

Mr. JACOWAY. If he does not go on the exchanges, then is this an insurance policy to him?

Mr. BUTLER. Mr. Jacoway, I would not buy the cotton from him if I did not have the insurance policy; he can do it directly if he wants to do it.

Mr. JACOWAY. But he does not do it?

Mr. BUTLER. I understand that; but if you take it away he could not do it and I could not do it.

Mr. JACOWAY. Then it is not an insurance policy to him?

Mr. BUTLER. Then, the country merchant will buy along because he can insure.

Mr. JACOWAY. That is a mistake in my country.

Mr. BUTLER. It is not a mistake throughout Mississippi and Louisiana. Country merchants or country buyers stimulate cotton. They sometimes buy enormous quantities over and above what they have sold, and then sell futures and lose considerable money on the futures. and then sell the cotton at a price on the futures and make a small profit between the price that the cotton was bought as compared to

the futures, and the price at which the cotton was sold as compared with the futures. For instance, we might buy at 80 on futures and sell at 100 and make 20 points. The trade loses the bulk of the money on the futures.

Mr. McLAUGHLIN of Nebraska. Where there is an insurance and there is a loss somebody pays it. Who pays the loss in these transactions?

Mr. BUTLER. Probably the speculative public pays the loss; yet the speculator is blamed for doing all these things.

Mr. JACOWAY. We will agree they pay it at the time. Who pays it ultimately?

Mr. BUTLER. The speculator pays the bulk of the losses.

Mr. McLAUGHLIN of Nebraska. It is not passed on to the producer or to the consumer?

Mr. BUTLER. No. The speculators pay; some producers pay; the trade pays—all of them do not make a success; many of them fail in the cotton business.

The CHAIRMAN. Thank you, Mr. Butler. Without objection, a copy of your letter to Senator Caraway will be inserted in the record.

JANUARY 12, 1921.

Hon. T. H. CARAWAY,
Senator-elect from Arkansas, Washington, D. C.

DEAR SIR: Regarding the statement of Senator Comer, which you read to me from page 7272 of the Congressional Record of May 8, 1920:

"Mr. COMER: To be sure * * * the difference that was fictitiously accomplished"—

I beg to reply as follows:

The statement is erroneous, and I wish to call to the attention of the committee the values of the current month since March, 1919, as recorded in the New Orleans future market and its comparative value to the quotation of Middling cotton in the New Orleans spot market as follows:

Date.	Middling spot quotation.	Current contract month.
	Cents.	
May 20, 1919	32	May, 33.40 cents.
July 14, 1919	34.25	July, 35.50 cents.
Oct. 22, 1919	36.88	October, 37.52 cents.
Dec. 20, 1919	40	December, 40.85 cents.
Jan. 22, 1920	39.75	January, 40.30 cents.
Mar. 18, 1920	41	March, 40.10 cents.

The above tabulation is not intended to convey the idea that the relationship between spots and futures exists every day during the option of the months traded in but does conclusively show that at sometime during the life of the option the close relationship between spots and futures actually exists.

The amendment of March 4, 1919, to the United States cotton futures act from the foregoing facts appears to establish the extreme relationship between contracts (future) and spot quotations. Any effort to further restrict the percentage of the grades tendered would create a fictitious value for contracts, and while the Comer amendment may put up the price of future contracts, they would be of no value to the trade any more than the price of a specialty like sea-island cotton (which is a very small percentage of the crop grown) reflects the price obtainable for the great bulk of the cotton grown.

It is questionable from the illustration above whether the present contract is not too restrictive; at least it indicates that all thought of further restricting it should at least be dispelled.

I am sending a copy of his letter to Congressman Dupré, of Louisiana, requesting him to enter it in the record so that my testimony before the committee last Monday may be complete.

Respectfully submitted.

EDW. S. BUTLER.

The CHAIRMAN. We will be glad to hear from Mr. Stern.

STATEMENT OF MR. EDGAR B. STERN, OF LEHMAN-STERN & CO., NEW ORLEANS, LA.

Mr. STERN. Gentlemen, I want to say that I am in the cotton factorage business as well as in the cotton futures business, and my interests are altogether in favor of high prices for cotton. As a cotton factor I am much more prosperous when my clients are getting good prices for cotton. I am also a landowner, and as a Southern landowner I naturally want the highest prices for cotton.

I want to say in that connection, and also with some experience in banking in the South, being a director of a national bank, that it is my firm conviction that if this system were destroyed and the cotton exchanges closed up it would be a calamity to the South.

I am convinced that this system of price insurance is absolutely essential to modern business, and that while there is speculation, it can not be denied that the net result of the whole system is one of tremendous good to everybody concerned, including the producer. I want to say from the banking point of view for one thing, that if you do not have hedging in cotton, the possibilities of buyers of cotton hedging, that you could not have anything like the extensive buying that you have now. A great many years ago the buying in the South was controlled by a very few firms. Gradually that became more democratic; smaller buyers went into business and spread out all over the South. Compresses were built in small towns, and the banks would permit these small men to deal in cotton, therefore making competition at every point where competition previously did not exist. And my experience as a banker is that the banks could not dream of financing those small men to the extent they do if they did not know those men could protect themselves against price declines by using the future market.

I want to say further that I think it is a great mistake to attempt to blame the cotton future system and the cotton exchanges for the recent decline in cotton in the last few months. If we will just take the analogy of other innumerable commodities where there is no future trading we can see that the declines have been as great and in some cases greater. That is not only true of things directly competitive with cotton, such as wool and silk, which have declined in even greater percentage than cotton—lumber, silver, copper, steel—nearly everything that we know of where there are no future exchanges they decline in proportion.

And I think it is just as unfair to say that the exchanges put cotton down as to say the absence of exchanges put those other things down. But I will say this, which Mr. Butler touched on, that where the exchanges do exist there is a chance of a declining market for the producer gradually to sell some of his product, and and that was done this year very extensively in cotton. Texas sold a world of cotton at 25 to 30 cents.

Take the case of silk: I was told by silk merchants that as long as there was a future exchange in Tokyo they sold a good deal of silk during the decline. But when that exchange was closed because of the financial collapse in Japan they could not sell a pound of silk at any price.

Gentlemen, the question of speculation and the theory of speculation has been brought in. It seems to me that to attempt to visualize the cotton exchange as a mere gambling den is a tremendous misattempt from the nature of the dealings there. If you gentlemen will become acquainted with the character of men who belonged to those exchanges you will know that they are not just plain gamblers—that they are merchants. I know we have found in operating a spot cotton business as well as a cotton future business that the two work very properly together—that especially since the Smith-Lever Act, that the cotton future contract is a commercial contract; that in innumerable cases every year those two systems work hand in hand for the benefit of all concerned.

There is just one other point that I do not think has been touched on, and that is this, that the Congress of the United States might legislate the New York and New Orleans exchanges out of business and make it illegal in the United States to trade in this kind of a contract. But there is an exchange in Europe that is beyond our jurisdiction—the Liverpool Cotton Exchange—and when we remember that cotton is a product that has to be exported, or rather a product two-thirds of which in normal times is used in other countries and not in this we must see that we can not stop future trading because we can not put Liverpool out of business. If we give Liverpool the sole function of dealing in all the cotton futures of the world you are playing into the hands of the spinning industry, because England does not raise a bale of cotton; she raises some long staple cotton in Egypt, but that is not in discussion; we do not trade in long staple futures. But England's interest, of course, is in low prices for cotton. England is a spinning country. If you attempt action to wipe out the exchanges in the producing country and can not touch the exchange in the consuming country, I think you will see what sort of a situation would exist as to the control of prices.

As to the question of speculation influencing prices——

Mr. CARAWAY (interposing). Might I ask you a question right there?

Mr. STERN. Surely, sir.

Mr. CARAWAY. If the exchanges in Europe could control prices, why can they not control them in America? You say if we were to close ours and leave theirs open, they would ruin us. If that could be done from there, why can not it not be done over here?

Mr. STERN. I do not say that the exchanges control prices. I say this——

Mr. CARAWAY (interposing). Did you not say that a minute ago?

Mr. STERN. You misunderstood me or else I used unfortunate language. My point is that if there is to be speculation on either side, if there is speculation at all—and there is speculation in cotton just as there is speculation in liberty bonds, just as there is speculation in foreign exchange, just as there is speculation in real estate—

although they are not traded on a cotton exchange. I say that if you are going to have speculation only in a spinning country and not have any speculation in a producing country, then you are absolutely turning over the ordinary balance that comes into all speculation.

Mr. CARAWAY. If there is speculation in that consuming country, and the exchanges can control the price of cotton there, why can not they control it here?

Mr. STERN. I will answer it this way: If there is speculation going on over here, naturally some men think things are going lower and sell; there are other men who think things are going higher and buy. Where there is a seller there must be a buyer and this thing balances itself. In that part of the country you are not going to have any buying speculation; it is against the interests of the country to have buying speculation.

I want to take up this point, then I will be very glad to answer any questions: The question has been asked here several times as to whether this insurance really works in the absence of a specific contract. I want to say that the spinners indirectly use the future markets constantly in this way: If a spinner wants to buy 500 bales of strict middling 1⅛ cotton, he does not go on the cotton exchange and buy 500 bales of futures, because he would then get average grades. But he goes to a merchant whose business it is to furnish specific grades and he says to that man, "How much on futures will you sell me the particular type of cotton I need?" He may do that in the spring of the year or summer, and the man will make a calculation based on his merchants' experience and say, "I will sell you that cotton at 100 or 150 or 200 on"—whatever the premium he thinks it probably will be possible for him to buy at when he needs it.

Mr. JACOWAY. Does he not sell at so much a pound?

Mr. STERN. I used the term "on." I will explain what I mean by that technical word. He will sell at 150 points on futures, which means that if futures are at 30 he will get 31½ cents from the spinner for that particular kind of cotton, and when he makes that contract to deliver that class of cotton he goes into the future market—this dealer does—and buys 500 bales of cotton on contract, don't you see? And when he finally buys his spot cotton, the actual cotton that that man needed, then he undoes his hedge by selling out his 500 bales, but then he has sold out his futures and has brought in 500 bales of spots. So that the spinning world is making use of the contract market in thousands and thousands of bales through the indirect medium of the dealer; that dealer is a useful middleman in that sense, because he is in position to gather up cotton from all different points and to grade and carefully select the particular kind of cotton that that mill needs.

And, gentlemen, in my opinion, you never will be able to devise any specific contract which would satisfy every mill or the great majority of mills, because you can not describe as an exact science just the kind of cotton a mill uses. You could not sit down and write it out, because not only does it vary so much in grade—it varies a great deal in staple, in what they call the "tensile power" of the cotton and in the general character of the cotton. There are some mills that will only use Texas cotton; there are some mills that will only use Oklahoma cotton, and so on, because of the peculiar character of the cotton in that particular district.

Gentlemen, I do not want to take any more time of the committee.

Mr. DUPRÉ. It has been suggested in the discussion that farmers themselves really avail themselves of the hedging proposition made possible through the existence of cotton exchanges or that they are represented by the small country merchants who do avail themselves of these hedging prices. Have you had any experience along that line as a factor?

Mr. STERN. I certainly have, Mr. Dupré; and I want to say that in the future business that my firm does I am convinced that at least 80 per cent—and I believe it would be nearer 90 per cent—of the contracts on our books are contracts with cotton merchants, mills, or the representatives of producers. We have some of the largest producers and country merchants who deal with the producers, selling and buying future contracts through my firm, ad that has been true for years.

Gentlemen, as I said I do not want to take up the time of the committee. If there are any questions I will be glad to answer them.

Mr. TINCHER. I want to interrupt the hearing at this time, if the chairman will permit, to ask the gentleman who appeared before the committee the other day a few questions. He lives a long way from this city, and I am afraid he will leave town.

Mr. DUPRÉ. You mean Mr. Calvin, to whom allusion has been made, and I am sure Mr. Calvin wants to answer questions, but in the meanwhile would not the gentleman allow Mr. Stern, who has to go back to New Orleans, to continue his remarks?

Mr. TINCHER. I thought he was through.

Mr. STERN. I am through, unless there are questions.

The CHAIRMAN. Thank you, Mr. Stern.

STATEMENT OF MR. E. A. CALVIN—Resumed.

Mr. TINCHER. Mr. Calvin, in giving your testimony the other day, you stated in the preface that your name was E. A. Calvin, residence Houston, Tex.; that you were here at this time as a cotton grower and that a number of farmers met at Houston, Tex., and asked you to come to present the matter to the committee as best you could. Could you give me the names of those farmers in Houston, Tex.?

Mr. CALVIN. I can not give you the exact date; I can not give you the exact date that I left Houston, but it was along the first of this month.

Mr. TINCHER. In the month of January?

Mr. CALVIN. Yes.

Mr. TINCHER. Where was this meeting held?

Mr. CALVIN. In the office of Mr. Judd, in the Scanlon Building.

Mr. TINCHER. What Mr. Judd?

Mr. CALVIN. Sam C. Judd, a cotton man, cotton grower, and real estate man.

Mr. TINCHER. In the office of Mr. Sam C. Judd, in the month of January, 1921—what time of day?

Mr. CALVIN. I think about 2 o'clock in the afternoon, or 3 o'clock.

Mr. TINCHER. Who else besides yourself and Judd were present at that meeting?

Mr. CALVIN. There were several. There was a Mr. Harp.

Mr. TINCHER. Give me Mr. Harp's initials.
Mr. CALVIN. Oscar W. Harp.
Mr. TINCHER. Where does he live?
Mr. CALVIN. He lives in town.
Mr. TINCHER. In the town of Houston?
Mr. CALVIN. Yes, sir.
Mr. TINCHER. What business is he engaged in?
Mr. CALVIN. He owns lands and is in the real estate business.
Mr. TINCHER. What other gentlemen were present?
Mr. CALVIN. Mr. Agen. I can not recall his initials.
Mr. TINCHER. What business is he engaged in?
Mr. CALVIN. He owns extensive lands; I do not know what other business he has got, if any.
Mr. TINCHER. Does he live in the city of Houston?
Mr. CALVIN. No; I do not think he does.
Mr. TINCHER. Do you know where he does live?
Mr. CALVIN. He lives near Houston somewhere—not in Houston, but I do not know just where he lives.
Mr. TINCHER. What other gentlemen?
Mr. CALVIN. MacSwiney. I can not give you his initials.
Mr. TINCHER. Where does he live?
Mr. CALVIN. He lives northwest, I think, of Houston.
Mr. TINCHER. Who called this meeting?
Mr. CALVIN. Mr. Stidham, a cotton grower from Louisa, Tex., and it was at his suggestion, I think—it was not a regularly called meeting; I will state at the beginning—only 10 or 12 of us got together. It was not a formal meeting at all. Mr. Stidham, though, I think was the man who called it; he is a cotton grower living at Louisa and in Houston temporarily.
Mr. TINCHER. Do you live in Houston?
Mr. CALVIN. Yes, sir.
Mr. TINCHER. What is your address in Houston?
Mr. CALVIN. My address right now is 1234 Railroad Street, Houston, Tex.
Mr. TINCHER. How long have you live there, Mr. Calvin?
Mr. CALVIN. I have lived in and around Houston since 1907.
Mr. TINCHER. I believe you said that you were raising cotton down there?
Mr. CALVIN. Yes, sir; I have a farm down at Parland.
Mr. TINCHER. What is the size of your farm?
Mr. CALVIN. One hundred acres.
Mr. TINCHER. And you raised cotton on it last year?
Mr. CALVIN. I tried to, but did not raise any; it was a failure in that section of the country.
Mr. TINCHER. Was there any money raised in that meeting you attended?
Mr. CALVIN. No, sir; I borrowed $500 myself to come up here on. But the men said they would pay my expenses.
Mr. TINCHER. What men said they would pay your expenses?
Mr. CALVIN. These men in this meeting, and I have one letter in which Stidham himself wrote the letter and said my expenses would be looked after. I can bring that letter if you want me to.
Mr. TINCHER. This congressional committee can not have the pleasure of intimate acquaintance with witnesses who appear and

testify before them. In your testimony the other day, in your description of this the next day, you went on to say [reading]:

In this connection I will say that for a number of years I have been both president of the Farmers' State Union and——

Mr. CALVIN (interposing). Yes, sir.

Mr. TINCHER (reading):

And was also for a short while president of the National Farmers' Union. I have worked with farmers' organizations since 1905 almost continuously.

Mr. CALVIN. Yes, sir.

Mr. TINCHER. "For two years and a half I have represented the market board, composed of the commissioner of agriculture and the presidents of the various farm organizations and was here in Washington during the war."

Mr. CALVIN. Yes, sir.

Mr. TINCHER. You are not working with any market board now, are you?

Mr. CALVIN. No, sir; we dissolved about a year ago.

Mr. TINCHER. Note this language "For two years and a half I have represented the market board."

Mr. CALVIN. I should have said I did represent it.

Mr. TINCHER. In the past.

Mr. CALVIN. If that reads that way I will correct it.

Mr. TINCHER. What market board was that?

Mr. CALVIN. That was our marketing board organized when we got into the war, I think in the fall of 1917. A meeting was called at New Orleans, I think, by Mr. Jackson and Mr. Brown, of Georgia, commissioner of agriculture and director of the bureau of markets of that State. They organized what is called the "market board," to be composed of the commissioners of agriculture, the directors of markets, and the farmers' union presidents of the cotton States, and without any solicitation on my part whatever, not knowing I had been selected, I was selected as the Washington representative and came here at the beginning of the war and remained here almost two years, or maybe a little more than two years, making a fight against price-fixing on cotton and making a fight for a better price on food, and the Food Administration was trying to put the price down, and our board, I think, as will be testified by some Congressmen, did very effective work, for which I shall always feel very proud.

Mr. TINCHER. All this time you were owning and operating a cotton farm?

Mr. CALVIN. Yes, sir.

Mr. TINCHER. And taking some interest in the present street vernacular, for a man engaged to that extent in raising cotton. There is a telegram from Texas, from Charles B. Metcalfe.

Mr. CALVIN. Yes, sir; I know him.

Mr. TINCHER. I am not personally responsible for this. He says: "Demand Calvin's authority to represent farmers. Impeach his testimony before Agricultural Committee with papers in files I sent you. I don't believe he represents anyone but gambling exchanges, who doubtless pay him."

That is the reason there is some question about your representation. But as I understand you now, you came here simply because you owned this 100-acre farm.

Mr. CALVIN. No, sir; I do not want you to understand any such thing. I have not asked you to. I am not going to. I asked you to understand that I have been working on these problems since 1905 almost continuously. I have attended nearly all the important cotton conferences held in the South.

Mr. TINCHER. About the Farmers' Union. I have a little information on that. Are you a member of the Farmers' Union?

Mr. CALVIN. Yes, sir. Now, in reference to the Metcalfe telegram, I desire to say that Mr. Metcalfe and myself have not always gotten along very well. Mr. Metcalfe, and I regard him as a very radical man—very radical indeed, and he is one of these men who says things that men ought not to say sometimes, and which thoughtful men will not say. Beyond that, I will not discuss Mr. Metcalfe, except to say that I do not give a continental what Mr. Metcalfe says about me, and I do not think there are many people in Texas that do care what Metcalfe says. I have worked with farm organizations a great deal longer than Metcalfe has——

The CHAIRMAN (rapping on the table). Right here, Mr. Calvin, let me interrupt you in what you are saying about Mr. Metcalfe, so that those reading these hearings will not be misinformed. I know a great deal of Mr. Metcalfe, whom I regard as a very capable and very high-class man. He is a farmer owning one of the largest irrigated farms in Texas. He and his son are the owners and proprietors of the Glenmore farm; they are breeders of short-horn cattle and have a very good herd. Mr. Metcalfe is a real farmer, and, as I have said, a man of very high standing. He is well known to many Members of Congress, and held in high esteem.

He is a high-class man, and he is a real farmer.

Mr. CALVIN. Yes. He used to own the city water works of San Angelo, a stock farmer, and so on. I do not know what all.

The CHAIRMAN. No one will deny he is substantial and practical farmer in high standing.

Mr. TINCHER. He owns a thousand-acre farm.

Mr. HUDSPETH. He was a member of the legislature for a number of years.

Mr. CALVIN. So was I; but I have gotten well of that.

Mr. TINCHER. Some of the Texas Congressmen seem to think he is a nice fellow.

Mr. CALVIN. He is, I guess, in his way.

Mr. TINCHER. You claim some credit for membership in farmers' unions, and it has been suggested to this committee that some go back to the farm and others continue to testify before congressional committees, never forgetting their former connections with these farmers' organizations, and sometimes, for instance, using expressions of this kind: "For two and a half years I have represented the market board, composed of the commissioner of agriculture," etc., which would give a man quite a standing before the committee.

Mr. CALVIN. I told the truth.

Mr. TINCHER. You were just a little careless in not mentioning that your time had expired?

Mr. CALVIN. Yes, sir.

Mr. TINCHER. You say that you expect to have your expenses for this trip to Washington paid by these gentlemen who met in that

office in that building in Houston that morning. Will you name a man who was at that meeting that produces cotton and who is interested in it from the cotton producers' standpoint whom you pretended to represent?

Mr. CALVIN. Can I name a man who does?

Mr. TINCHER. Yes.

Mr. CALVIN. I have just been telling who they were.

Mr. TINCHER. Oh, no—real estate men.

Mr. CALVIN. Mr. Judd is one of the largest real estate owners in that section, and Mr. Stidham one of the largest cotton growers at Louisa, and I will show you a letter from Stidham in which he told me that they would pay my expenses. I will bring the letter up here and show you that he said my expenses would be taken care of.

Mr. TINCHER. How long do you anticipate it is going to be necessary for you to remain here?

Mr. CALVIN. If you will pardon me, one of the reasons why I am here is that when I was here I bought a home, and before I left I sold it. I paid a small amount down and sold it to a man who gave a note and has fallen down on the payment. The first payment was due on it, and they are threatening to sue on it, and I am here also for that purpose. The reason I came here so willingly was to try to float a loan to take care of my property so I will not lose my note, if you want me to go into my private affairs.

Mr. TINCHER. I do not want you to go into your private affairs. I did not know you bought a home in Washington. What was the idea of buying a home here?

Mr. CALVIN. Because, when I was here representing the board, I thought it was cheaper to buy than to rent; and I bought a place at $9,000 and sold it for $7,500 when I left.

Mr. TINCHER. You rather anticipated suspending operations as a cotton grower?

Mr. CALVIN. No, sir; I did not anticipate anything during the period I was representing the board here.

Mr. TINCHER. Do you live on that farm?

Mr. CALVIN. No, sir.

Mr. TINCHER. But you rent it?

Mr. CALVIN. Yes, sir.

Mr. TINCHER. Who do you rent it to?

Mr. CALVIN. I rent it to a Mr. Buce.

Mr. TINCHER. Share crop?

Mr. CALVIN. Share crop.

Mr. TINCHER. You did not have any crop last year, but you want to be sure your expenses were adequate for the crop last year?

Mr. CALVIN. As I said before, Mr. Tincher, I have taken an interest in the matters so long that I do not feel like quitting, just like you in Congress do not feel like quitting, hoping there is some good you can do. I hope there may be some good I can do; and, as I said, I have given very careful study to these questions since 1905, and up to this good hour—not only have, if you will pardon a personal reference, to say I have been active in these lines for many years. I am the father, if you want to call it that, of the first cotton school ever organized in the world, or ever heard of in the world, in Dallas, Tex., in 1906. That is, the object of the school was to teach farmers

the classification of cotton. Out of that, Mr. Tincher, has grown the inauguration of the teaching of cotton classification in every agricultural and mechanical college in the South.

I wrote the bill myself that put the teaching of cotton classification in the A. and M. College of Texas. I was president of the farmers' union. When we built 320 warehouses you could hear the sound of the saw and hammer everywhere.

I fought for the bill requiring that agriculture be taught in the public free schools of Texas. We put it through.

I can stand here and enumerate many things I have taken interest in and tried to accomplish for the farmers. My life's work has been along this line; that has been my object and purpose in life. I may be wrong on the cotton-exchange question; if I am I hope this committee will be able to show me I am wrong; although this is a result of an opinion gained from mature deliberation.

Mr. CARAWAY. Was the warehouse concern you were connected with the one that sold stock all over the country?

Mr. CALVIN. No, sir.

Mr. CARAWAY. What company was that?

Mr. CALVIN. That was the Mississippi Warehouse Association.

Mr. CARAWAY. No; I mean the one in Texas.

Mr. CALVIN. We had a small concern which sold stock.

Mr. CARAWAY. And went broke, did it not?

Mr. CALVIN. Yes; went broke in 1913—it did not go broke during my administration.

Mr. CARAWAY. It went broke a little while after you quit?

Mr. CALVIN. No, sir; four years afterwards.

Mr. CARAWAY. Do you remember in what year it broke?

Mr. CALVIN. 1918.

Mr. CARAWAY. Oh, my, don't you know that that warehouse company broke and broke everybody with it a long time before that?

Mr. CALVIN. That is the Mississippi company.

Mr. CARAWAY. I know the people who bought the stock in it.

Mr. CALVIN. Oh, no; you are mistaken. In the first place, we only had $5,000 stock all told.

Mr. CARAWAY. I do not know whether it is your company or not.

Mr. CALVIN. I had nothing to do with that whatever; I had no stock in it.

Mr. TINCHER. Your concern did go broke, did it?

Mr. CALVIN. I organized this cotton concern, which was a cooperative concern; I believe in 1906, while president of the farmers' union. It operated against odds, until 1913, that year when low-grade cotton was so prevalent throughout the country, it became temporarily embarrassed, although the assets were greater than the liabilities, but it could not collect from those who fell down on the payment of shipments of cotton that did not come up to grade.

I resigned and went to Austin to take charge of the warehouse department at Austin, which position was tendered me by the governor of Texas at that time, and served three or four months until the new administration came in. Mr. Shropshire, who succeeded me, operated the same company three or four years, and then did not go broke; they just organized another concern in its place, which is called the Farmers' Exchange.

Mr. DUPRÉ. Mr. Calvin, do you know how the farmers' union of Texas as an organization has been on this measure?

Mr. CALVIN. No; I do not.

Mr. HUDSPETH. Do you not know as a fact that at Dallas they indorsed this measure or a similar measure a year ago?

Mr. CALVIN. I am not aware that they indorsed a similar measure. No. I do not think so.

Mr. HUDSPETH. So did I.

Mr. CALVIN. I was not in the legislature; I was there representing the farmers' union.

Mr. HUDSPETH. Do you remember that cotton immediately went up after abolishing the bucket shop, and stabilized cotton?

Mr. CALVIN. I do not remember that; because the bucket shops in Texas had nothing to do with cotton whatever. Their transactions did not go into the market.

Mr. HUDSPETH. We had a long hearing during which the gentlemen representing them, from Dallas, did have lots of cotton. Mr. Thomas, if you will recall, who was representing the big shops, made a very strong fight there, and we finally passed a bill, my recollection is that the cotton market immediately went up and was stabilized.

Mr. TINCHER. I understand you were not in the legislature when the antibucket shop law passed?

Mr. CALVIN. No, sir; I was not.

Mr. HUDSPETH. I was thinking he was.

Mr. CALVIN. No, sir; I served with you several years ago.

Mr. HUDSPETH. I know you did. I did not recall whether you were there at that session.

Mr. TINCHER. Were you leaving because they were prohibiting the bucket shops in Texas?

Mr. CALVIN. I think I did more work on it than any other man. I believe so. I put in my very best influence. That year I was elected chairman of the legislative committee and I was president, with authority to call in to my assistance, and you will recall I called F. W. Davis to my assistance.

Mr. TINCHER. Are you a member of the farmers' union of this city.

Mr. CALVIN. Yes.

Mr. TINCHER. Since when?

Mr. CALVIN. There has been a local at Spring, Tex., all along in my county, but I have recently reorganized a board to take over the original charter of the Farmers' Educational and Cooperative Union of America. Inasmuch as I have made that statement, I will have to state why: The laws of Texas, as I suppose of every other State, requires that a majority of the board of directors of a corporation shall reside in the State. For five years there has not been a single member of the board in Texas. So the charter of the concern is subject to cancellation at any time that the attorney general may direct, and I have recently got together what we called the "old guard" in the farmers' union and reorganized the board and saved that charter of the Farmers' Educational and Cooperative Union of America; otherwise it would be declared null and void.

Mr. TINCHER. Who were the members associated in regard to this new proposition?

Mr. CALVIN. They were Mr. F. W. Betts, of Pittsburgh, Tex.; Mr. W. P. Young, of Blossom, Tex.; Mr. R. E. L. Jackson, of Paris, Tex.; Mr. Tom Roahe, of Paris, Tex.; Mr. MacSwiney, of Houston, Tex.; Mr. Frank Hilton, of Wilmer, Tex., and myself.

Mr. TINCHER. Were you federated with any other unions?

Mr. CALVIN. I think not.

Mr. HUDSPETH. I was not present at the organization in Dallas, but I saw a statement in the Dallas News saying that the Farmers' Union of Texas went on record as favoring a bill of this character.

Mr. CALVIN. Which one—there are several bills here?

Mr. HUDSPETH. This one introduced by Mr. Caraway.

Mr. CALVIN. I am quite sure they did not do that.

Mr. HUDSPETH. Of course, this bill has not been introduced, but there were other bills.

Mr. CALVIN. The attitude of the farmers' union as a whole was that the farmers' union has passed resolutions at various times favoring hedging on exchanges, but opposing violent speculation. And, by the way, while I was not at the last meeting of the farmers' union, I heard somebody read the record favoring practically that. But Mr. Barett, is the president of the farmers' union, and he comes here and files a statement in which he advocates the abolition of the cotton exchanges. But that was not in accordance with the resolution passed by the National Farmers' Union.

Mr. TINCHER. Mr. Barrett is the accredited representative of the National Farmers' Union?

Mr. CALVIN. Yes, sir.

Mr. TINCHER. He is the real, honest-to-God, elected representative?

Mr. CALVIN. Yes, sir.

Mr. HUDSPETH. Who is president of the State farmers' union?

Mr. CALVIN. His name is Leidy. Neil wanted to abolish all cotton exchanges. All of the presidents of the farmers' union have varied. We have never been able to reach an actual conclusion.

Mr. TINCHER. How can the fellows in the farmers' union go along as long as the union stands behind them, and it is all right, and they have got enthusiasm; and then if the union does not stand behind them they organize themselves a little union of their own.

Mr. CALVIN. I do not think that has been the history. I think that most everybody has stood loyally by the farmers' union.

Mr. TINCHER. The only organization you are a member of is this new one your are reorganizing?

Mr. CALVIN. It is not a new one; it is an old one—the parent order.

Mr. TINCHER. What was the idea of reorganizing it?

Mr. CALVIN. In 1909 and 1910—mark you the National Farmers' Union—namely, the Farmers' Educational and Cooperative Union of America—that is the charter name, the legal name of it. It was chartered at Austin, Tex., in 1902. It had power to grant charters to States as organized. It granted a charter to Texas, and in 1909 some of our officers became dissatisfied with the actions and they withdrew from the National Farmers' Union and organized the Farmers' Union of Texas, and took out a separate and distinct charter and is operating under a separate charter and has no connection with the Farmers' Educational and Cooperative Union of

America, the parent organization, the one I organized the board to save the charter.

Mr. TINCHER. And you propose to supersede the seceders.

Mr. CALVIN. No, sir; I do not propose to do that. I proposed to preserve the charter, because when it was organized I was president of both the State and national bodies, and I am going to save this, if I can. Those are my views. I hope you gentlemen have gotten out of me what you want.

Mr. CARAWAY. Will you give me the time and place the farmers' union went on record in favor of regulation in farm products?

Mr. CALVIN. I do not think it ever did, sir.

Mr. CARAWAY. You left the impression on me to that effect just now.

Mr. CALVIN. I did not so intend it.

Mr. CARAWAY. I do not presume you did, but that is just exactly what you said.

Mr. CALVIN. I do not know that any organization has gone on record to that effect.

Mr. CARAWAY. In this reorganization of the Farmers' Union of Texas, is it a single man who got them into the union under the old organization a member of the new one?

Mr. CALVIN. Is there a single man——

Mr. CARAWAY (interposing). In the new organization that could have gotten into the union under the old organization.

Mr. CALVIN. They are members, most of them, now. They are reorganizing merely to save the old charter, Mr. Caraway, which will be declared null and void because of the absence of the directors from the State.

Mr. CARAWAY. What do you want with a charter when you have no members?

Mr. CALVIN. The National Farmers' Union has members.

Mr. CARAWAY. Just to have an organization to represent it—they did that; is that the idea?

Mr. CALVIN. Oh, no. I did not get up here and claim to be representing anything like that.

STATEMENT OF MR. BUTLER—Resumed.

Mr. BUTLER. The New Orleans Cotton Exchange is opposed to all bucket shops, and has a standing committee on the suppression of bucket shops. That is the question asked every man who enters our exchange or applies for membership is, "Have you at any time been connected with a bucket shop," and if so, he is barred from membership on our exchange.

You can not demand the delivery of cotton on the bucket shop.

The CHAIRMAN. Bucket shops are competitors of the exchanges, are they not.

Mr. BUTLER. The bucket shops were competitors of the exchange, yes. But they made no quotations, but through the wire service and ticker service secured the quotations of exchanges and traded on them. They never contemplated delivery of the articles traded in at all. They were purely gamblers, to which the exchanges were opposed and are still opposed.

The CHAIRMAN. The grain dealers operated in exactly the same way?

Mr. BUTLER. Not at all; the responsibility was never the same.

Mr. TINCHER. One was big and one was little.

Mr. JACKSON. I have received the following telegram from S. Y. West, who is president of the Little Rock Cotton Exchange, which telegram I will ask to be inserted in the record, if there is no objection.

The CHAIRMAN. That may be done.

(The telegram submitted is here printed in full as follows:)

LITTLE ROCK COTTON EXCHANGE,
Washington, D. C., January 7, 1921.

T. A. JACKSON,
Washington, D. C.

There is a bill for passage to destroy future trading in cotton which if it becomes a law will affect the cotton business in the same manner as taking away fire insurance, for the future exchanges are simply associations where a dealer, farmer, banker, or spinner can take price insurance by buying or selling contracts to protect himself against fluctuations in price, thus enabling handlers of cotton to work on much smaller percentage of profit than other merchants who have no price insurance in other lines of business.

Many people are blaming these price insurance associations or cotton exchanges for the cheap price of cotton when if they will look into the fall in price of wool, silk, and tobacco, which have no such method of protection, they will find the decline in value was much more drastic and faster. Before insurance companies were formed all merchants had to carry their own risk and to operate safely had to figure a much larger margin of profit than at present; it took the world a long time to develop fire insurance; it took longer to develop price insurance; they are both essential to modern business, the destruction of either will hurt the producer and consumer alike.

S. Y. WEST,
President, Little Rock Cotton Exchange.

The CHAIRMAN. Is Mr. Watson S. Moore and Mr. Frotwell here? (No response.)

The committee will now stand adjourned until 10 o'clock to-morrow morning.

(Thereupon at 5.25 o'clock p. m. the committee adjourned to meet to-morrow, Tuesday, January 11, 1921, at 10 o'clock a. m.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, January 11, 1921.

The committee met at 10 o'clock a. m. pursuant to adjournment on yesterday, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. Mr. Osborne, the committee will be pleased to hear from you this morning.

STATEMENT OF HON. HENRY E. OSBORNE, A REPRESENTATIVE IN THE CONGRESS FROM THE STATE OF CALIFORNIA.

Mr. OSBORNE. Mr. Chairman and gentlemen of the committee, the bill under consideration is one I introduced in the House on December 27, 1920.

(The bill referred to is here printed in full in the record, as follows:)

[H. R. 15378. Sixty-sixth Congress, third session.]

[A BILL To amend the United States cotton futures act by inserting therein a new section for American Egyptian cotton only, to be known as section 5a.]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the United States cotton futures act, approved August 11, 1916 (Thirty-ninth United States Statutes at Large, page 476), as amended March 4, 1919 (Fortieth United States Statutes at Large, page 1351), is hereby amended by inserting therein a new section for American Egyptian cotton only, as follows:

"SEC. 5a. That no tax shall be levied under this act on any contract of sale mentioned in section 3 hereof if the contract comply with each of the following conditions:

"First. Conform to the requirements of section 4 and of the rules and regulations made pursuant to this act.

"Second. Specify the basis for the cotton involved in the contract, which shall be one of the grades of American Egyptian cotton for which standards are established by the Secretary of Agriculture, the price per pound at which the cotton of such basis grade is contracted to be bought or sold, the date when the purchase or sale was made, and the month or months in which the contract is to be fulfilled or settled: *Provided,* That grade three shall be deemed the basis grade incorporated into the contract if no other grade be specified either in the contract or in the memorandum evidencing the same.

"Third. Provide that the cotton dealt with therein or delivered thereunder shall be of or within three grades of American Egyptian cotton for which standards are established by the Secretary of Agriculture.

"Fourth. Provide that in case cotton of grade other than the basis grade be tendered or delivered in settlement of such contract, the differences above or below the contract price which the receiver shall pay for such grades other than the basis grade shall be the actual commercial differences, determined as hereinafter provided, except that the official cotton standards of the United States for American Egyptian cotton shall be used for the purposes of this section, and where middling cotton is mentioned in section 8 of this act grade three of the grades of American Egyptian cotton shall be substituted for the purposes of this section only.

"Fifth. Provide that cotton that, because of the presence of extraneous matter of any character or irregularities or defects, is reduced in value below that of grade five, or cotton that is below the grade of grade five, the grades mentioned being of the official cotton standards of the United States for American Egyptian cotton, or cotton that is less than one and seven-sixteenths of an inch in length of staple, or cotton of perished staple or of immature staple, or cotton that is 'gin cut' or reginned, or cotton that is 'repacked' or 'false packed' or 'mixed packed' or 'water packed,'' shall not be delivered on, under, or in settlement of such contract.

"Sixth. Provide that all tenders of cotton under such contract shall be the full number of bales involved therein, except that such variations of the number of bales may be permitted as is necessary to bring the total weight of the cotton tendered within the provisions of the contract as to weight; that on the fifth business day prior to delivery the person making the tender shall give to the person receiving the same written notice of the date of delivery, and that on or prior to the date so fixed for delivery, and in advance of final settlement of the contract, the person making the tender shall furnish to the person receiving the same a written notice or certificate stating the grade of each individual bale to be delivered and by means of marks or numbers identifying each bale with its grade.

"Seventh. Provide that all tenders of cotton and settlements therefor under such contract shall be in accordance with the classification thereof made under the regulations of the Secretary of Agriculture by such officer or officers of the Government as shall be designated for the purpose, and the costs of such classification shall be fixed, assessed, collected, and paid as provided in such regulations. All moneys collected as such costs may be used as a revolving fund for carrying out the purposes of this subdivision, and section 19 of this act is amended accordingly.

"The provisions of the third, fourth, fifth, sixth, and seventh subdivision of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the

same, at or prior to the time the same is signed, the phrase 'subject to United States cotton futures act, section 5a.'

"The Secretary of Agriculture is authorized to prescribe regulations for carrying out the purposes of the seventh subdivision of this section, and the certificates of the officers of the Government as to the classification of any cotton for the purposes of said subdivision shall be accepted in the courts of the United States in all suits between the parties to such contract, or their privies, as prima facie evidence of the true classification of the cotton involved."

Mr. OSBORNE. I will state briefly that I introduced this bill at the request of the Pacific Cotton Exchange, an officer of which, Mr. Turner, is here present, and he will make the argument for the bill.

This bill is to legitimize actual transactions in future sales of long-staple cotton. The growers of cotton in our section of the country now are at great disadvantage by reason of the fact that they are precluded by the present law from selling for future delivery, and it is quite essential that they should be able to do so in order that they may receive the advantage of bank credits and carry on a perfectly legitimate business. It is for the purpose of assisting in carrying on a legitimate business and not for the purpose of assisting in gambling operations. These cotton people must receive credits at banks in order to be able to carry on their business, the credits that are usually extended to the producers of all agricultural products.

The CHAIRMAN. You mean to extend to them the same credit, to the growers of this particular grade of cotton or dealers in this particular grade of cotton, that are now extended to the growers of other cotton?

Mr. OSBORNE. Yes, sir.

Mr. TINCHER. Your people just sell actual cotton for future delivery?

Mr. OSBORNE. Yes, sir; that is it exactly.

Mr. HULINGS. Can not the farmer sell his crop in the ground that is growing, now? Can not he make a contract with me, for instance, to sell that to me?

Mr. OSBORNE. I understand that under the present law it is not possible to sell this particular grade of cotton for future delivery.

The CHAIRMAN. Because it is not included in the 10 grades deliverable under the contracts dealt on on the cotton exchange?

Mr. OSBORNE. Yes, sir. Mr. Turner is here, and he understands the matter better than I do. But, in a broad way, that is the purpose of the bill.

The CHAIRMAN. Mr. Turner, the committee will be glad to hear you. Please state your name, occupation and residence. Without objection, a telegram received by Mr. Osborne from the Los Angeles Clearing Association will be inserted in the record.

LOS ANGELES, CALIF., *January 11, 1921.*

Hon. HENRY Z. OSBORNE,
House of Representatives, Washington, D. C.:

At a meeting of the executive committee of the Los Angeles Clearing House Association to-day it was the unanimous opinion of all present that the passage of the amendment to section 5 of the Lever Act which is now before you to promote trading in American Egyptian cotton, be given your hearty support. As the bill now reads, at the present there is no way for American Egyptian cotton to be hedged except as provided in this measure, and as the larger portion of

this season's crop is still on hand the immediate passage of this bill will undoubtedly be of great benefit to the cotton industry of the Southwest. We trust that you will use your inuuence in having this bill passed at the earliest possible moment.

LOS ANGELES CLEARING HOUSE ASSOCIATION.

STATEMENT OF MR. K. M. TURNER, TREASURER OF THE PACIFIC COTTON EXCHANGE, LOS ANGELES, CALIF.

Mr. TURNER. Mr. Chairman and gentlemen of the committee, my name is K. M. Turner, and I am treasurer of the Pacific Cotton Exchange at Los Angeles, and am also in the cotton business.

I make no pretensions to being in a position to argue the case before you gentlemen, but here are some faults that I have jotted down, and with your permission I will present them to you:

AMERICAN EGYPTIAN COTTON FUTURES AMENDMENT.

The great productive valleys of southern California, Arizona, and that portion of Mexico lying in the Imperial Valley known as Lower California, are yearly increasing their contribution to the wealth of the world. Their contribution is a cause of wonderment, except to those who by reasons of their close acquaintance and knowledge of their past and present can predict their future without conjecture.

The possibilities of the soil of these areas is so great, the development of new crops so rapid, the activities of the agricultural departments of both Government and State so varied and earnest, that we find that we have developed another industry without providing proper safeguards for handling the commodity.

H. R. No. 15373 is an amendment to a bill now on the statute books, the object of which is to protect one of America's growing, and what is destined to be one of her great agricultural assets, viz, American Egyptian or Pima cotton.

In asking your favorable consideration of this bill in behalf of the financial interests, the growers and the Pacific Cotton Exchange, we are not asking that a new law be placed upon the statute books or that Congress spend one penny upon our district, but only that you amend the existing act by inserting a new section that will give us the same privilege, that of protecting the growers and dealers in American Egyptian cotton as has been afforded those who handled short cotton for the past 35 years.

Previous to the development of Egyptian cotton in California and Arizona, which are destined to be the long staple sections of the United States, the manufacturers bought their supply from Egypt, and to this country or England they must to-day apply if they protect themselves against the market fluctuations, although the cotton is raised on American soil, bought, sold, and manufactured by American capital and labor. Protection against the rise or fall in price is absolutely necessary from the grower to the manufacturer. Securing this in a foreign land is slow, expensive, and impracticable.

Had this staple been a product of this country when the bill upon which the present operating bill is based was passed, it would have been a portion of the present bill, and considered as essential as the present specifications for the handling of short or upland cotton.

The growing of Egyptian cotton is to-day in its infancy, but the Agricultural Department of the Los Angeles Chamber of Commerce's report for 1920 shows a total of 253,000 acres producing approximately 189,000 bales.

The value of Egyptian cotton is normally, perhaps, two and one-half times the value of short staple, which would indicate to you the immense capital required to handle this crop and this amendment is introduced so that this capital may be protected in the act.

As an example of the importance of the quick passage of this bill with this amendment, I am attaching a copy of a letter from one of our most reputable

and reliable cotton dealers, dated January 5, 1921, Mr. F. E. Devine, of Phoenix, Ariz.:

PHOENIX, ARIZ., *January 5, 1921.*

Mr. K. M. TURNER,
Treasurer Pacific Cotton Exchange, Los Angeles, Calif.

DEAR MR. TURNER: Regarding the proposed cotton futures amendment as applicable to the Egyptian cotton, which is now before Congress, I wish to give you the following experience I had last year:

It was in November or December, 1920, I received a telegram asking for a quotation on 1,500 bales of Pina cotton landed at the mill. At that time the market was advancing almost daily and it was absolutely out of the question to go short that amount of cotton. I endeavored to split the order among two other brokers, but without success.

Had the Pacific Cotton Exchange been functioning then so that the order could have been accepted and hedged, I would have undoubtedly been able to sell the cotton to the mill and be protected against any raise in the market value by my hedges.

Sincerely, yours,

F. E. DEVINE.

That, gentlemen of the committee, is briefly what we ask. We have an asset out there of a great many millions of dollars, but to grow this cotton, to buy it, and sell it, may only be done safely by buying futures against that cotton in Liverpool or Alexandria, Egypt, at the present time.

Mr. TINCHER. I do not know whether I understand the situation or not, but the man who writes this letter had an order for so many bales of this kind of cotton, as I understand.

Mr. TURNER. Yes, sir.

Mr. TINCHER. Do you know whether he filled the order or not?

Mr. TURNER. No, sir; he did not fill it. He would not dare fill it because he had no way of protecting himself.

Mr. TINCHER. That is, you mean to say that the only way he could have filled it would have been to buy actual cotton and send that to the party giving the order?

Mr. TURNER. Yes; and that takes time. In the meantime the market was advancing, so that if he sold cotton—and I suppose at that time the cotton was selling at about a dollar a pound or 90 cents a pound; so that if he sold it at 90 cents and the market kept going up he would have to pay for that cotton at the rate of a dollar or $1.10 a pound, perhaps. I am only using these figures by way of illustration. The result would have been that he would have lost from $50 to $100 a bale, because he could not protect himself by hedging.

Mr. TINCHER. What he needed, in your opinion, was a board of trade deal to keep the price down.

Mr. TURNER. No, sir; not necessarily that. What he needed was exactly the same protection that his neighbor across the street, the man in Texas or in New Orleans, has in selling the same number of bales of short staple cotton. If he could protect himself in the price by selling futures against that sale until he had actual delivery of the cotton, he would be in a reasonably safe position, and then when he buys in his futures he would be all right.

Mr. TINCHER. There has been some talk before the committee to do away with gambling in futures entirely, that is, instead of licensing a new product for gambling in futures to do away with it entirely. For instance, on yesterday cash wheat in Chicago was worth 15 cents more than May option, and 16½ cents more than

March option. There is no prospect of any thrashing or of producing any wheat between now and May and March. It is quite apparent that the future delivery price is being manipulated to keep cash price down. That is exactly what the man who wrote that letter desired, to be able to manipulate the future price in order to keep the price down. You gentlemen want to gamble, too?

Mr. TURNER. In that particular case he is not asking to manipulate the price, but to be protected in the actual buying and selling of grain. We are not speculators or gamblers in any way. When you buy the cotton in the fields you sell your future against it to protect yourself in the price of the same number of bales that you have bought. It sometimes takes three weeks or perhaps a month to get that cotton in our country, where the distances are great and the facilities are not as good as they are in some other parts of the country.

Mr. HULINGS. Well, if the man who proposes to sell had something on hand to sell he would not need to hedge, would he? If this man had owned that cotton he could have sold it at whatever price was agreed on?

Mr. TURNER. He did not own the cotton.

Mr. HULINGS. Isn't that the difficulty about it—men selling things that they do not own?

Mr. TURNER. It would be necessary for him to buy that cotton of perhaps a hundred different men.

Mr. HULINGS. Yes.

Mr. TURNER. In order to be able to supply these mills giving the order. The mill wanted the order filled in round lots.

Mr. McLAUGHLIN of Michigan. What was the business of the man who received the letter you have read?

Mr. TURNER. He is engaged in the cotton business.

Mr. McLAUGHLIN of Michigan. What kind of cotton business?

Mr. TURNER. In buying and selling spot cotton.

Mr. McLAUGHLIN of Michigan. Does he grow cotton himself?

Mr. TURNER. No, sir.

Mr. McLAUGHLIN of Michigan. He did not own any cotton at all; he bought and sold on commission, did he?

Mr. TURNER. He paid the farmer a price, and sold it at a price, the actual product, the same as you would a sack of flour or a dozen eggs.

Mr. TINCHER. What that man wants is this machine that he can use that will actually insure him against loss in the transaction?

Mr. TURNER. It insures the grower against loss. Without this insurance the grower can not sell his cotton.

Mr. TINCHER. Let me see if I understand you. F. E. Devine gets a letter from a mill offering him so much a bale or a pound for so many bales of cotton. F. E. Devine does not grow any cotton, and has not got any cotton; but F. E. Devine complains, and says: "I want the Congress to pass a law by which I may sell that cotton; and then can have a machine, the implements of a market, by which I can go and hedge; and then I can go and buy the cotton of the farmer, and fill the order." That is what he wants exactly, isn't it?

Mr. TURNER. No and yes.

Mr. TINCHER. Has the farmer who puts in his work growing cotton any machine in existence to guarantee him against loss?

Mr. OSBORNE. May I make an observation there?

The CHAIRMAN. Certainly.

Mr. OSBORNE. As a matter of fact, in this very transaction, the inability of this man Devine to collect 1,500 bales of cotton would result, would it not, in leaving that cotton on the hands of the growers? And, if they afterwards sold it all, didn't they have to sell at a lower price, or they have got the crop on hand now?

Mr. TURNER. The chances are they have it now. I do not know as to this particular case, however.

Mr. OSBORNE. And the chances are that they had to sell, if they did sell, at a price of about one-half what it was at the time spoken of?

Mr. TURNER. Yes, sir.

Mr. OSBORNE. So that the grower of the cotton, by reason of this lack of convenience, did lose about one-half of the possible price he could have received on his cotton?

Mr. HULINGS. On the other hand, if the price of cotton had gone up he would have gained?

Mr. TURNER. I am a farmer and a grower, and have been all my life; and, if you want to protect the grower, I will say to you you can only do it by providing the machinery that is now in operation for short staple cotton. If it must be modified to the extent, if it is not right to extend that privilege to short staple cotton growers, then we would be in their position. But the farmer himself can not sell his cotton unless he or the man to whom he is selling has an opportunity of hedging. The banks will not loan him money on it. And if you want to kill the cotton industry then withdraw that provision, and you have killed it absolutely in our country.

Mr. TINCHER. Well, I do not know about that. The other grades of cotton have this permission that you speak of.

Mr. TURNER. How is that?

Mr. TINCHER. The other grades of cotton grown in the South have the benefit of this permission that you seek to have made applicable to your cotton out there. Their representatives who have appeared here are divided as to whether they want to continue it that way or not. They are not exactly of the same mind, as I understood. And they are in exactly the same position that you are, and they have no market at all now for their cotton. But they are divided as to whether they want to do away with the gambling proposition or not.

Mr. TURNER. That is not the question. That is not the question in our case, but the situation as it exists against us does not permit of the natural working of the law of supply and demand.

Mr. TINCHER. You can not blame the condition of your cotton to that, but the writer of this letter blames your condition to the supply and demand proposition.

Mr. TURNER. I am not doing that.

Mr. TINCHER. In other words, if they are going to gamble in another kind of cotton it is a fundamental proposition that you should be allowed to gamble in your kind of cotton. That is right, and I will agree with you to that extent. But if gambling in any cotton is wrong and works an injustice to the producer and consumer of the cotton, then instead of amending the law so as to permit gambling in another grade of cotton we ought to prevent gambling being done in any cotton.

Mr. TURNER. In referring to the gambler, I take it you refer to the speculator and not to the legitimate grower of cotton?

Mr. TINCHER. I have reference to the man there who complains that he was not permitted to gamble and buy the farmers' product; because that is all it could be, as he did not have the cotton. If he sold any cotton to a mill he would have to buy it and furnish it. Now, if he says, "Before I will do that I will not take the chance of the man who takes his plow and takes his seed and plants it and grows cotton; I have to have a machine by which I can hedge to protect myself against any loss; I can not afford to take any chance."

Mr. TURNER. The hardware man, in taking an order for nails with which to build a building, and in selling those nails has not the nails on hand, and he does not make nails. But the moment he takes the order he places an order with the factory making nails for a sufficient supply to build the building. That is all the cotton dealer does in hedging; simply places an order for enough bales of cotton to fill the order.

Mr. TINCHER. Yes; but he does not place the order with the cotton grower, like the man who makes nails. He deals with a fictitious machine, which deals several times over the amount of the actual product.

Mr. TURNER. I will take an illustration: If you will pay drafts in the cotton business for a while you would differentiate between speculation and dealing in the actual stuff.

Mr. TINCHER. I think I do that. If this man wanted to take a chance he would sell that mill so many thousand bales of cotton and then go out and buy it and fill the order. But he does not want to be a speculator; he wants to be a sure-thing gambler in the farmer's product. He wants a machine set up that will protect him against any loss, and then to go and buy the cotton as cheaply as he can with which to fill the order, and when he fills the order he sells out the hedge. The most of them who have wanted to designate it in a rather dignified term have called hedging insurance.

Mr. HULINGS. What is the matter out there in California about this cotton? Does the farmer send his bales of cotton into a warehouse, and doesn't the warehouse man give him a certificate of ownership?

Mr. TURNER. In selling cotton the manufacturers ask for so many bales of a certain grade of cotton.

Mr. HULINGS. Yes.

Mr. TURNER. Now, a farmer may raise 10 bales or 15 bales, but the percentage of cotton that the individual farmer grows of that which the mill wants is very, very small. The individual farmer may have 1 bale or 5 bales or he may have 50 bales. So that in order to get that cotton for the mill it is necessary to buy from various growers enough of the particular grade to fill the order, and that takes time.

Mr. HULINGS. Suppose you are a man who wants to fill that order. Would you buy from a farmer what he may bring in and put into your warehouse, as a particular allotment; and then would you buy from other farmers in the same way, until you got enough to fill that order from the mill man, or would those farmers send their crop in to some warehouse man, and the warehouse man would

issue to those farmers certificates of ownership of so many bales in the warehouse?

Mr. TURNER. They do that now.

Mr. PURNELL. But the man who raises the cotton does not get the money in that case?

Mr. HULINGS. Oh, no; the man who raises it gets a certificate, and he sells that certificate, as I understand.

Mr. TURNER. Yes. When the cotton is baled, the banks, unless the cotton is hedged, will refuse to loan money on it. The farmers can not handle it because the banks refuse to loan money. And dealers can not handle it for the same reason. And I doubt very much if the mills could handle it unless they had a tremendous capital, because they could not borrow money on it. A bank will not loan you money on cotton unless it is protected by a hedge.

Mr. MCLAUGHLIN of Michigan. Mr. Devine buys and sells actual cotton?

Mr. TURNER. Yes, sir. He is not a gambler. I do not suppose he ever gambled in a bale of cotton in his life.

Mr. MCLAUGHLIN of Michigan. His transactions on the board of trade I suppose could hardly be called gambling.

Mr. TURNER. No, sir.

Mr. MCLAUGHLIN of Michigan. Well, I presume there are a number of men who buy and sell on the board of trade who have no cotton, have no idea of receiving or delivering cotton, and their transactions could be called gambling?

Mr. TURNER. They probably could be so called.

Mr. MCLAUGHLIN of Michigan. Would you approve of those dealings?

Mr. TURNER. No, sir. On this particular grade of cotton that we are asking an amendment for, you might protect that situation, if in your judgment it is thought wise, by making the speculative interest not to exceed 500 bales or 1,000 bales.

Mr. MCLAUGHLIN of Michigan. You think Mr. Devine's transaction is necessarily legitimate, but you think that the other kind of work is objectionable. Now, take Mr. Devine's case. He had an order from this mill for so many bales of Egyptian cotton, and he would like to sell it, so he goes out and hedges. Did he have any idea of accepting or making delivery on that hedge?

Mr. TURNER. His idea was to deliver the actual cotton on a contract.

Mr. MCLAUGHLIN of Michigan. But how about on the hedge?

Mr. TURNER. On the contract.

Mr. MCLAUGHLIN of Michigan. The hedge and the contract are one and the same thing. Of course, he intended to deliver the actual cotton to this mill, but how about the hedge? Did he intend to deliver or accept the actual cotton on that transaction?

Mr. TURNER. Perhaps not in that case, but he could——

Mr. MCLAUGHLIN of Michigan (interposing). Oh, yes; I understand what you mean, but where is the difference between him and this other man you speak of whose course is reprehensible and who will just bet on the price of cotton at a future time?

Mr. TURNER. Well, sir, in my way of looking at it there is quite a difference between them. Let us bring it down to a homely illustration, if we may.

Mr. McLAUGHLIN of Michigan. We have an actual illustration in that case. We have Mr. Devine, who is an actual dealer, and you say his hedge is proper and legitimate, but he admits that he has no idea of delivering cotton under the hedge?

Mr. TURNER. He could not get the money to finance that transaction; he could not move the cotton; he could not take it from the station at which grown; and could not deliver it at the dock. He could not ship it to the mill unless he could hedge, because the banks would not finance the transaction.

Mr. McLAUGHLIN of Michigan. But you say he had no idea of accepting the cotton on this buy that he made, which is called a hedge. It was a gamble, pure and simple on his part for protection; it was insurance or whatever you may call it. Isn't that true?

Mr. TURNER. I do not think so, sir. If eggs are worth——

Mr. McLAUGHLIN of Michigan (interposing). I can see how his dealings with the miller from whom he received the letter, and his dealings with those who have the cotton as he goes out to buy the cotton for the purpose of selling and delivering it to the man from whom he received the letter; I say, I can see how that is one kind of transaction. That is dealing in actual cotton. But when he goes on the board of trade and hedges he has no idea of receiving the cotton to which that hedge relates?

Mr. TURNER. Yes; he has.

Mr. McLAUGHLIN of Michigan. Really, now, has he?

Mr. TURNER. I think he has, sir.

Mr. McLAUGHLIN of Michigan. Now, has he in fact?

Mr. TURNER. I think he has.

Mr. HULINGS. He would not buy that cotton from the farmer and also buy it from the party who sold him the hedge; that would be double delivery on the one sale?

Mr. TURNER. Not as I see it.

Mr. HULINGS. If he takes it from the man he buys the hedge from and also takes the cotton from the farmer Mr. Devine would be getting 3,000 bales of cotton and only giving out 1,500 bales.

Mr. TURNER. I can not see why that as you say it there is any different. If eggs to-day are worth 20 cents a dozen and I come to you and say I want to buy 10 dozen eggs and you say all right and you sell me 10 dozen eggs and you have not got them, as your hens have not laid that many eggs yet, although they are laying and the eggs are coming, what do you do? You go out to Smith and buy 10 dozen eggs, and then when your hens lay 10 dozen eggs you deliver them to Smith and you have been protected in the price, and yet you have not been gambling in the transaction.

Mr. McLAUGHLIN of Michigan. I am not saying that the transaction by Mr. Devine was wrong, and am not implying it in my question, but I say, to bring out what I believe to be the fact—that is, that the hedging transaction was a pure and simple gambling proposition, and that it is not similar in all respects as far as I can see it to the actual selling of cotton, and it is the hedging transaction alone that I am speaking of now.

Mr. TURNER. I understand.

Mr. McLAUGHLIN of Michigan. It is of exactly the same nature as far as I can see as that indulged in by a man who has no deal like

Mr. Devine had on hand; who has no demand for cotton, and who does not want actual cotton, and has no idea of accepting or delivering cotton; men who are gamblers and nothing else—I can not see a particle of difference between Mr. Devine's transaction and theirs. If you can see a difference will you explain it to me?

Mr. TURNER. For my own information may I ask you how he could fill that order without the protection of the hedge when the banks refuse to loan him money on it?

Mr. McLAUGHLIN of Michigan. I think very likely he could not, and that is the reason I say——

Mr. TURNER (interposing). Well then the farmer could not likely sell his cotton.

Mr. McLAUGHLIN of Michigan. I think perhaps he could not. Therefore I am not saying it is wrong and that it should be forbidden. I am not saying that, but I am trying to get information so that I may determine whether or not these transactions should be in fact forbidden. But I can not, I want to say to you, for the life of me see any difference between Mr. Devine's transaction on his hedging proposition and the transaction of a man who just buys and sells every day on the board of trade having no idea whatever of accepting or of making delivery of what he buys.

Mr. TURNER. Not except as to the purpose. One deal was made with the purpose of delivering the cotton, and the other is made for the purpose of speculation.

Mr. McLAUGHLIN of Michigan. I beg pardon, but do I understand from you that it is the intent not to accept or make delivery that constitutes a hedge? In Mr. Devine's case he evidently intended to buy from somebody and to make delivery to this correspondent. There was a natural transaction, but I am talking about his hedge now.

Mr. TURNER. He had a right to deliver it on his hedge if he wanted to.

Mr. McLAUGHLIN of Michigan. He had a right to do it, I understand, but he had no intention in fact of doing it; that is, as to making delivery on his hedge. Suppose he is asked to do it, what kind of cotton would he be required to deliver?

Mr. TURNER. He would have to deliver exactly the same grade of cotton the contract with the mill owner caller for, and he would have to ship it to the mill on his hedge instead of buying it from the farmer. But he expected to buy it from the farmer, even though he had a right to demand it on the hedge and to deliver it to the mill.

Mr. McLAUGHLIN of Michigan. Are you right about it, on the hedge proposition?

Mr. TURNER. Absolutely. Mr. Morrill, of the Bureau of Markets, Department of Agriculture, is here, and perhaps he can give you some light on that proposition.

Mr. McLAUGHLIN of Michigan. I think I need it, because I feel I am pretty dumb on it if I may judge from the situation as stated here. Mr. Devine intended to go out and actually buy cotton from somebody, or from several somebodies, and deliver it to his correspondent?

Mr. TURNER. That was his intention.

Mr. McLAUGHLIN of Michigan. He entered into a contract with this correspondent to deliver to him a certain kind of cotton, and

then he goes out and deals with those who have cotton, and buys it from them, and delivers the actual cotton to the correspondent. Then he goes on the board of trade, and, perhaps, he does not know who he is dealing with at all, but he makes a hedge, and makes it without any idea of accepting or making delivery on the hedge which he has made for his protection. So if the price changes from what he has to pay for the actual cotton for delivery to his correspondent he will be protected, he will not lose money on his transaction. Isn't that it? He makes a little speculation; he gambles a little; and there has to be somebody at the other end of the transaction on that hedge business, hasn't there?

Mr. TURNER. Yes, sir.

Mr. MCLAUGHLIN of Michigan. Do you think the other party he deals with on that hedge intends to deliver the cotton?

Mr. TURNER. If he should be asked to do it, he would have to deliver the cotton contracted for.

Mr. MCLAUGHLIN of Michigan. Ordinarily delivery on a hedge of actual cotton is not called for, not in one case in a thousand, is it? And when delivery is demanded, the man whose duty it is to deliver can deliver any old stuff, any trash?

Mr. TURNER. No, sir.

Mr. MCLAUGHLIN of Michigan. But not what was contracted for at all?

Mr. TURNER. I beg pardon. He could only deliver the grade and staple called for in his contract.

Mr. MCLAUGHLIN of Michigan. I think you will find by examination that a man who is called on to deliver and finds it necessary to deliver, can deliver something of a lower grade and entirely different.

Mr. TURNER. I have in mind only our Egyptian cotton. You evidently have in mind the short staple cotton of the South, I presume?

Mr. MCLAUGHLIN of Michigan. The rules of the exchange require delivery of the real stuff in your case, of the same grade in every particular as that contract is for, does it?

Mr. TURNER. Yes, sir; that the contract calls for. Of five grades, you may deliver any one of three on the contract.

Mr. PURNELL. In actual practice there is not any cotton delivered on a hedge, is there?

Mr. TURNER. Well, as a rule, a hedge is nothing more than a purchase of a promise to deliver a certain number of bales of cotton. If you want to take advantage of that promise, the cotton is delivered to you, most certainly.

Mr. PURNELL. I assume that that is true, if you want to deliver it. But as a matter of actual practice, it is not done, is it?

Mr. TURNER. Perhaps you are right, sir.

Mr. MCLAUGHLIN of Michigan. The same thing is done in the case of wheat and corn. And as I understand the testimony given before us, when delivery is demanded on one of these hedging transactions, the man who finds it necessary to deliver can deliver something of a different grade altogether.

Mr. HULINGS. By paying a differential?

Mr. MCLAUGHLIN of Michigan. And in a very large number of cases where there is hedging the parties never intend to deliver, but

to pay the difference in money, one way or the other, making it, as I look at it, a gambling proposition; and the man whose business it is to deal in corn or wheat, and who goes in to protect himself in an actual transaction, is gambling as far as his hedging transaction is concerned exactly the same as two men who go in and make a business of buying and selling hedges, or whatever they call it, on the stock exchange, without any idea of accepting or making delivery. Now, it may be necessary in a situation such as you describe to permit that, but I do not see how you can permit it to one man and deny it to another.

Mr. TURNER. The cotton growers of the southwest are not all capitalists. They have to borrow money to raise their crop, and——

Mr. PURNELL (interposing). Well, is it your contention that with the hedge eliminated the farmers' product can not be sold at the time when he actually needs money; is that it?

Mr. TURNER. I think it would be a very great detriment to him, sir. As I was going to point out to you, last spring the farmers from the various valleys in California came in to us and wanted to borrow some money with which to raise their crops. It was essential that they have the money. They expected to raise a certain number of bales of cotton, and on the prospect of their raising that number of bales—and I want to pause to say that when you come to the question of gambling, the greatest gambler in the world is the farmer when he puts his seed in the ground. He gambles in everything in the countries which are not blessed with irrigation, as we are in California. In California and Arizona the farmer does not gamble in that way, because when he puts his seed in the ground he knows that God is going to give him water to bring the crop to maturity. It is there in advance for him. So when he borrows money he borrows with the assurance that he can pay and deliver the cotton. Cotton at that time was worth about 30 cents a pound. He could make some money raising cotton at 30 cents a pound. So he sold in advance, just the same as Mr. Devine did when he sold to the mill; they sold in advance, perhaps 10 bales, or perhaps 15 bales each, and they collected 30 cents a pound against that cotton. The farmer took that money and went down in the country and plowed the ground, and planted his seed, and he bought the necessary groceries, and bought shoes for his children, and made his home.

Well, on the other side of it, we had bought 10 bales of cotton at 30 cents a pound. So we sold 10 bales of cotton at 30 cents a pound. We were not profited by the transaction except to the extent, perhaps, of $2.50 a bale. In that way we were protected. And we went to the bank and we borrowed money. We borrowed 30 cents a pound on 10 bales of cotton. And the bank took that assurance of the hedge, and they were protected.

What did we do? We took the money from the bank, and we passed it on to the farmer, and the farmer distributed it among those items it was necessary for him to deal with in order to produce his crop. He produced his crop. He picked the cotton, and he brought it to the gin, and it was ginned, and he shipped it to use, and we sold it.

Now, gentlemen of the committee, who is harmed by that transaction. It would have been impossible for that farmer to have got shoes

for his children, or that crop in the ground, without our ability to sell that cotton in advance, or through the medium of futures, if you please.

Mr. PURNELL. Who did, as a matter of fact, actually carry that deal?

Mr. TURNER. The bank.

Mr. PURNELL. Well, they had to have something to insure them?

Mr. TURNER. Absolutely, and the only thing they could have had was the hedge.

Mr. PURNELL. Who was the man back of the bank? The man who bought the hedge at the other end of the transaction?

Mr. TURNER. Well, that cotton was hedged on the New York Cotton Exchange.

Mr. PURNELL. Well, then, somebody did take the other end of the transaction on the New York Cotton Exchange, and that somebody was really back of the bank and of you and of the purchaser?

Mr. TURNER. Yes. It could have been somebody in Los Angeles for that matter. What I am trying to point out to you gentlemen is the fact that without that protection the farmer's children are not going to get their shoes and the crop is not going to be grown.

Mr. TINCHER. What you mean is that you have got to have sale in futures in order for the farmer to have credit?

Mr. TURNER. You may call it what you like. But that is the actual situation. Now, those farmers are to-day waiting out there to get money with which to put in another year's crop.

Mr. TINCHER. Let me see if I understand you: The farmer could not have gone to the bank and said: I want to grow so much cotton, and want so much money? They would not have loaned him the money?

Mr. TURNER. If the local bank had loaned the money it would probably have taken a mortgage on his farm and on his teams and on his cows and everything he had. It would not have loaned him 30 cents a pound on cotton, either.

Mr. TINCHER. That is a new argument, but as I understand you trading in cotton futures is necessary in order to give the farmer a proper outlet for credit.

Mr. TURNER. For the cotton actually produced, yes.

Mr. TINCHER. Will the local banks loan money to the speculator and yet not to the farmer?

Mr. TURNER. I beg pardon. With us the local banks do not furnish us the money. The local banks are not strong enough to loan the amount of money necessary for the cotton crop.

Mr. TINCHER. They take care of that end of the transaction——

Mr. TURNER (interposing). Yes, sir.

Mr. TINCHER (continuing). And then they borrow from the big banks?

Mr. TURNER. Yes, sir.

Mr. TINCHER. As a matter of fact, in southern California and in all other States, the banks borrow that money from the Federal reserve banks or whatever other banks they are doing business with, based upon the real credit of the farmer that the local banks let this money go to, more than on the credit of speculators who deal in futures, don't they?

Mr. TURNER. Well, I don't know anything about that. We don't deal with speculators.

Mr. TINCHER. You have raised quite a theory. And that is, that it is necessary for us to permit trading in futures, as now going on, in order for the farmer to now have credit at the banks?

Mr. TURNER. I can see no other way of handling the situation.

Mr. TINCHER. Of course that is not true at all in my State, the State of Kansas, about whose conditions I know.

Mr. TURNER. You are a corn-growing State. I was raised in a corn and wheat State.

Mr. TINCHER. I am satisfied that the farmer has to stand on his own bottom with the banks out there in Kansas, and he does it.

Mr. LEE. The situation that the gentleman speaks of is very common in my State. I know of farmers who sold cotton at 29 cents in July to a dealer——

Mr. RIDDICK (interposing). What happens if the crop is a failure, because of drought or insect pests?

Mr. LEE. Well, I suppose the man who loans money has to take chances, but he knows the man.

Mr. TURNER. In southern California there is no such thing as failure if a man plants a crop. We do not depend upon rains from heaven to get water to raise our crops.

Mr. RIDDICK. And there are no pests there?

Mr. TURNER. No, sir; we have prevented all pests from entering the State of California up to the present time, and both the Federal Government and the State government are working to continue to prevent it.

Mr. RIDDICK. If what you say is true there would be no more cotton raised in event that Congress prevented hedging; we would have to go back to old conditions?

Mr. TURNER. Well, I would hardly know what to think would happen.

Mr. TINCHER. You have no benefit of trading in futures, if there is any benefit from it at all, in connection with your cotton grown in California now?

Mr. TURNER. Yes, sir; we can sell our cotton in Liverpool, England, or in Alexandria, Egypt, now on hedges.

Mr. TINCHER. But I mean as far as the United States is concerned?

Mr. TURNER. No; not as far as the United States is concerned. We have to go outside of the United States to get protection.

Mr. TINCHER. If you are in as good shape as other people; generally where people have to hedge you do not know whether they need the hedge or not.

Mr. TURNER. Well, of course, we have some short-staple cotton there, too. But that country is destined to be a long-staple cotton country.

Mr. HULINGS. Does it cost more money under your conditions to raise long-staple cotton?

Mr. TURNER. Yes, sir; about two and one-half times as much.

Mr. HULINGS. Why?

Mr. TURNER. One reason is that the Egyptian cotton does not grow as many pounds per acre. It is harder to pick, and the ginning

is harder, and everything connected with it is more expensive than in the case of the southern short-staple cotton.

Mr. McLaughlin of Michigan. Assuming that it is proper and necessary to permit Mr. Devine to go on the board of trade and hedge in order to protect himself, is there any way by which we can properly forbid others dealing on the board of trade who are doing it solely as a gambling proposition and who have no cotton and do not intend to accept or make delivery of any cotton, or to contract for actual cotton, and who are simply conducting a gambling proposition?

Mr. Turner. That is a question I would not want to express an opinion on without some thought. It probably would be a desirable thing if it could be done. But it is a big problem and you would not expect me to answer it offhand.

Mr. McLaughlin of Michigan. Would it be possible for us to enact a law that would permit Mr. Devine's transaction, but to say to him: You must find somebody at the other end of the hedging transaction who, like yourself, is dealing in cotton, so that it could not be called from your standpoint a gambling proposition; that you must find somebody situated as Mr. Devine is?

Mr. Turner. Well, I think that would make it impracticable. I do not think that would work.

Mr. McLaughlin of Michigan. The conclusion to be drawn from your statement is that in order to permit Mr. Devine to do what he wishes to do, it is necessary to permit anybody and everybody to go on the board of trade and buy and sell just as that anybody can find somebody to deal with?

Mr. Turner. Without giving the subject more thought than I would have time now to give it I would not like to attempt to answer. It may be possible.

Mr. McLaughlin of Michigan. We have got to answer it.

Mr. Turner. Well, I would at least like to give it some thought before I replied to your question.

Mr. Osborne. May I ask the witness a question?

The Chairman. Certainly.

Mr. Osborne. Along the line of Mr. McLaughlin's question, there is a substantial difference between an actual transaction in cotton and one that is a fictitious transaction?

Mr. Turner. I should think so; yes, sir.

Mr. Osborne. And with the great wisdom that is supposed to reside in the Congress, the Congress ought to be able to find the line of division between an actual transaction and a fictitious transaction, and apply the necessary laws thereto.

Mr. McLaughlin of Michigan. Mr. Osborne, you are a Member of the Congress, and endowed with this wonderful wisdom you speak of, or at least a portion of it; tell us how to do it?

Mr. Osborne. Well, I have not made the deep study of this subject that this committee has, but it appears to me that where there is such a substantial difference we ought to be able to draw the line and to apply the distinction. That is the way it appears to me. I am speaking seriously, gentlemen of the committee, because we all have due respect for the work of the Congress. There is one other thing which appears to me to apply in this particular place, and I want to ask Mr. Turner about it?

Mr. Turner, is not the object of this bill to place long staple Egyptian cotton on the same basis with reference to these transactions that short staple cotton is on now?

Mr. TURNER. Absolutely.

Mr. OSBORNE. That is the main point. We are simply asking the committee to put Egyptian cotton on the same basis as short staple cotton, so that we may not have to go to Alexandria, Egypt, or to London, England, to carry out simple transactions in the purchase and transfer of this high grade of cotton.

Mr. McLAUGHLIN of Michigan. What do you mean by the statement, Mr. Osborne, of putting it on the same basis as short staple cotton?

Mr. OSBORNE. Well, as I understand it, you can now do in short-staple cotton what this bill contemplates as to long-staple cotton; isn't that so?

Mr. TURNER. Yes, sir.

Mr. OSBORNE. What I ask is that you put the product of our Arizona and California country on the same basis as other cotton.

Mr. McLAUGHLIN of Michigan. All kinds of cotton, as I understand it, are on the same basis now.

Mr. LEE. No; that is not a fact.

Mr. VOIGT. This California cotton is not dealt in on the cotton exchange, is that what you mean?

Mr. OSBORNE. Yes.

Mr. VOIGT. What you want to do is to make it deliverable on exactly the same basis as other grades of cotton?

Mr. OSBORNE. Yes. We do not want any discrimination. What we want is that you shall not leave in the law the discrimination that now exists against our particular cotton.

Mr. McLAUGHLIN of Michigan. We have no such discrimination now, have we?

Mr. OSBORNE. I understand that we have.

Mr. TURNER. Yes, sir.

The CHAIRMAN. Let us get this clearly in the record: This Egyptian cotton is excepted from the operation of the cotton futures act?

Mr. OSBORNE. Yes.

Mr. TURNER. As it is now, a man can not protect himself in dealing in Egyptian cotton as he can do in dealing in short-staple cotton.

The CHAIRMAN. It is not one of the grades deliverable on a contract, is it?

Mr. TURNER. No, sir.

The CHAIRMAN. Therefore you are excluded?

Mr. TURNER. The grades are established by the Department of Agriculture, but there is no contract covering this Egyptian cotton.

The CHAIRMAN. Does the Department of Agriculture fix grades for this cotton?

Mr. TURNER. No, sir.

The CHAIRMAN. Then you propose to set up an exchange dealing in American Egyptian cotton?

Mr. TURNER. Not an independent exchange, but an independent contract.

The CHAIRMAN. This is to be an independent matter of any of the present operations?

Mr. TURNER. Yes, sir.

The CHAIRMAN. Can you give us the production of Egyptian cotton in the United States?

Mr. TURNER. This year we had in this country 189,000 bales.

The CHAIRMAN. And the total production of cotton in the United States is 12,000,000 bales?

Mr. TURNER. Yes, sir.

The CHAIRMAN. Anything further, Mr. Osborne?

Mr. OSBORNE. I have nothing further to say, except that I think it just that the American Egyptian cotton should be placed on the same basis as other cotton grown in this country. On the question of gambling, this illustration shows very clearly the great difficulty of conducting the business without some such basis of insurance as is proposed in that letter written by Mr. Devine. And as to the immoralty of such transactions, I am unable to see that it is any more immoral than it is to take an insurance policy on your life. Indeed, there is not as much risk in it, very little risk in it, whereas in the case of insurance on human life there is a good deal of risk. Those are the two points I make in favor of my bill.

Mr. MCLAUGHLIN of Michigan. There is an actual delivery in the case of insurance on life.

Mr. OSBORNE. There is actual delivery in the case of American Egyptian cotton.

Mr. MCLAUGHLIN of Michigan. Is that true under the hedge that Mr. Devine makes?

Mr. OSBORNE. That is a form of insurance which appears to me justified in good morals and in good business sense.

Mr. MCLAUGHLIN of Michigan. Is actual delivery contemplated on Mr. Devine's transaction?

Mr. TURNER. There is actual delivery contemplated if delivery is demanded.

Mr. HULINGS. Mr. Osborne, how would you regard a provision that all these hedging contracts must be consummated by actual delivery?

Mr. OSBORNE. Well, I think it would be nonsense, to tell the truth. Where a transaction was actually for the purpose of insurance, to insure delivery, if the contingencies were set forth in the contract and the contract had been fulfilled by delivery of the cotton to the purchaser, I think it would be nonsense to require another delivery, or double delivery, as this would be.

Mr. VOIGT. Under the present law if a man sells cotton on the exchange he may deliver in satisfaction of his contract any one of ten different grades of cotton. Do you understand that to be the case?

Mr. OSBORNE. Well, I will have to frankly say I am not well enough posted to tell you about that.

Mr. VOIGT. That is what appears by the statement made before the committee her. What is the object of your bill; to make California cotton deliverable on contract?

Mr. OSBORNE. To make the cotton that is contracted for deliverable; to require delivery of the actual grade of cotton that is called for.

The CHAIRMAN. Would you be satisfied to include it in the other ten grades?

Mr. TURNER. You could not do that. This is high-grade stuff and worth two or three times as much as short-staple cotton.

Mr. VOIGT. You want trading in your grade of cotton on the exchange?

Mr. OSBORNE. If you are correct about it and you can deliver different grades of cotton on a contract, that would not seem to me to be a legitimate proposition.

Mr. VOIGT. Under the cotton-futures act you can deliver any one of 10 grades. I understand they are quite closely related?

Mr. OSBORNE. That does not seem to me to be reasonable, but if that is so it would not fit our case. If you contract that you can deliver 10 different things to cover a contract I would not call it much of a contract. But we want to deliver this particular cotton. We do not ask for anything of that kind. What we ask for is a straight-out proposition to be able to make a contract for future delivery on this American Egyptian cotton, and the length of the staple is set forth here as cotton of $1\frac{7}{16}$ inches in length. We do not want anything else.

Mr. VOIGT. Is there any law at the present time that prevents brokers on a cotton exchange from dealing in your class of cotton?

Mr. OSBORNE. Well, I understand there is.

The CHAIRMAN. You can not tell about its quality because it is not included in the 10 grades deliverable under a contract. The objection is that it is because your cotton is much more valuable than other cotton.

Mr. LEE. There are five grades in your cotton, as I understand?

Mr. TURNER. Yes, sir. As to the 10 grades of cotton you deliver under other cotton contracts, they have a definite value. There are so many points off or on as a differential from the basic grades which basic grade in short cotton is middling. In our cotton we have five grades, and the basic grade we would term No. 3.

Mr. VOIGT. What I want to get is, do you propose to have your cotton deliverable in satisfaction of the cotton contract?

Mr. TURNER. Yes, sir.

Mr. VOIGT. Then the present law would have to be amended so as to put in 13 grades instead of 10 grades as provided in the present cotton futures act?

Mr. LEE. No.

Mr. TURNER. No; not 13 grades. Your present act is not applicable to American-Egyptian cotton. But this amendment asked for by Mr. Osborne would make it applicable to American Egyptian cotton.

Mr. VOIGT. Do you mean that the proposed amendment would make American-Egyptian cotton deliverable on a contract?

Mr. TURNER. Yes; as provided for by this amendment.

Mr. VOIGT. You do not propose to disturb the present 10 grades?

Mr. TURNER. No, sir.

Mr. VOIGT. You simply want to make it legal to deal in American Egyptian cotton on the cotton exchange?

Mr. TURNER. Yes, sir.

Mr. LEE. The bill here says that you have three grades?

Mr. TURNER. There are five grades.

The CHAIRMAN. The bill says three grades?

Mr. TURNER. Well.

The CHAIRMAN. Why do you limit it to three grades?

Mr. TURNER. Because when you get below that lowest grade then you have not merchantable cotton; in fact, that takes in practically all grades of American Egyptian cotton that is raised. Take the cotton that is being picked to-day, perhaps after frost, and with leaves and all those things in it, and perhaps the staple is a little short; it is not as valuable as cotton picked early in the spring when there are no leaves and trash in it. One would be perhaps No. 1 and perhaps the other would be No. 5. You could deliver them all to a mill under a contract, at so many cents a pound off No. 3, the basic grade, the same as wheat and corn.

The CHAIRMAN. That same question arises in all these bills as to wheat and cotton. As to cotton we are limited now to 10 grades on the cotton exchange. You propose 3 grades for your American Egyptian cotton?

Mr. TURNER. That is short cotton you have been talking about.

The CHAIRMAN. If the commercial difference is fixed by the Secretary of Agriculture would there be any objection to extending it to four grades or five?

Mr. TURNER. I am sorry but I did not catch that question.

The CHAIRMAN. If the Secretary of Agriculture fixes the commercial differences would there be any objection to extending to five grades the American Egyptian cotton?

Mr. TURNER. No, sir; that is all we ask.

The CHAIRMAN. But here in this bill you limit it to three.

Mr. TURNER. Three on delivery.

The CHAIRMAN. You limit delivery to three grades but you admit that there are five grades of American Egyptian cotton?

Mr. TURNER. I will tell you why we are asking delivery of three grades. These contracts contemplate delivery, say of 25 bales of cotton instead of a hundred bales, as in the case of short staple cotton. If you deliver five bales of each grade you would have a mixed lot of cotton, and it is the purpose to get the cotton down to a fine run of deliverable lots.

The CHAIRMAN. The transaction would apply to all future cotton. On the grain exchanges it is limited to four grades. The only difference as to the cotton exchange is that the differences in grades are fixed by the Secretary of Agriculture, which are actual commercial differences.

Mr. TURNER. Yes, sir.

The CHAIRMAN. In the grain exchanges we have the differences fixed by the exchanges?

Mr. TURNER. Yes, sir.

The CHAIRMAN. In the one instance the differences are determined by a disinterested party, while on the grain exchanges the differences in grain at the present time is fixed by the parties in interest, the contracting party, the exchanges. With the protection of the Secretary of Agriculture fixing the difference as to cotton would it not be safe to extend it to all five grades of American Egyptian cotton?

Mr. TURNER. I do not see that that would make any difference as to who fixes the grades. We are perfectly satisfied that the Secretary of Agriculture should fix the commercial differences be-

tween grades. But as to delivery of five grades I will say that it is to the interest of the grower and to everybody to have on these small contracts just three grades.

The CHAIRMAN. Exactly, because it makes it a more valuable contract.

Mr. TURNER. More valuable to the grower.

The CHAIRMAN. That has been the bone of contention since we started this thing.

Mr. TURNER. We have lots of growers that could deliver their own cotton under this contract.

The CHAIRMAN. But you seek to protect the producer as well as the seller?

Mr. TURNER. We want to protect everybody connected with the industry.

The CHAIRMAN. It is a guarantee to the purchaser that certain grades of cotton will be delivered, such as he needs in his business?

Mr. TURNER. Yes, sir.

The CHAIRMAN. And to exclude the others?

Mr. TURNER. Yes, sir.

The CHAIRMAN. You have a fine contract—as fine a contract as has been suggested here. There has been no one to suggest anything fairer than you say that would be?

Mr. TURNER. We have given it a great deal of thought.

The CHAIRMAN. The production of American Egyptian cotton is less than 2 per cent of the total production at the present time?

Mr. TURNER. Yes, sir; at the present time. But, as a matter of fact, all of the valleys of California are expected to be put into long staple cotton production, and it will be increased in time. It is a comparatively new industry.

The CHAIRMAN. In your opinion, how many exchanges would take advantage of this and operate? Have you taken it up with the cotton exchanges?

Mr. TURNER. It is possible that there would be two; one perhaps on the Pacific coast, and one on the Atlantic coast. New Bedford consumes a great deal of this cotton.

The CHAIRMAN. This particular cotton is used in the manufacture of automobile tires?

Mr. TURNER. Yes, sir.

The CHAIRMAN. And mercerized cotton?

Mr. TURNER. Yes, sir.

The CHAIRMAN. A good deal of it is imported?

Mr. TURNER. Yes, sir.

The CHAIRMAN. The question is, can we afford to set up an exchange to deal with less than 2 per cent of the total product?

Mr. TURNER. I can see no reason why you shouldn't.

The CHAIRMAN. If it is necessary to set up independent machinery to deal in this small percentage of particular grades, would it not also be wise to set up machinery to deal with higher grades of the other cotton and lower grades; or would it be better to reduce the number of grades dealt in?

Mr. TURNER. It might be worth considering.

The CHAIRMAN. You are familiar with the operations of the exchanges?

Mr. TURNER. To an extent.

The CHAIRMAN. It would not be necessary to set up a separate institution, would it? All that would be necessary would be to create certain rings in the present exchanges?

Mr. TURNER. Yes; I think California would welcome something like that, because then she could protect her staple in short cotton.

The CHAIRMAN. I wanted to bring out the advantage in limiting the number of grades and the disadvantage in making the number of grades of wider scope?

Mr. TURNER. You can deliver under present contracts cotton seven-eighths of an inch long.

The CHAIRMAN. There are 10 grades, and subgrades?

Mr. TURNER. Yes; that is the length of it.

The CHAIRMAN. There may be a thousand grades of it. But the act itself cuts them down from 124 to 10. A good many believe that there should be some regulation of grain, instead of having 23 grades deliverable on a contract; it should be limited to three or four or a particular class, or to a number of grades in a particular class.

Mr. TURNER. Yes, sir.

The CHAIRMAN. And that same rule should apply to cotton. That has been the bone of contention, the number of grades deliverable on a contract. That has been the bone of contention with spinners and millers. The question is, are you not going to protect the miller and the spinner as well as the others?

Mr. TURNER. Yes, sir.

The CHAIRMAN. I believe that is all.

Mr. OSBORNE. Just one word more I would like to say to the committee: By way of suggestion I would like to say in regard to this so-called gambling proposition that you can see that so far as we are concerned all in the world we want is to protect a perfectly legitimate industry, and we are not fostering any gambling schemes or anything of that kind. We are trying to get a good basis for our industry to exist on. I want to call the attention of the committee to this, that the United States Government never makes a single purchase, it does not purchase a camp site, or it does not purchase any goods, it does not purchase any oil, or anything else, without "hedging" to the extent of requiring a surety bond protecting the purchase, to guarantee that the thing delivered shall be the thing that was bought. And that is all that we ask here.

Mr. MCLAUGHLIN of Michigan. Does the Government make contracts for the purchase of materials and under such contracts accept delivery of inferior grades?

Mr. OSBORNE. It does not.

Mr. MCLAUGHLIN of Michigan. Does it make any contracts for the purchase of material and then when the time comes for delivery settle with the man it is dealing with by the payment of a hedge or money?

Mr. OSBORNE. No. All the Government does is to do what these people here wish to do, and that is to get a surety of some kind that the transaction is going to be honestly fulfilled.

Mr. HULINGS. If it would be nonsense, Mr. Osborne, to require these futures to be consummated by the actual delivery of the goods, then why do you claim that all the futures are deliverable at the

option of the contracting parties? Isn't that nonsense also? And isn't it a fact that it is not contemplatad in the case of these futures?

Mr. OSBORNE. What I said, Gen. Hulings, in regard to nonsense was that after the transaction had been completed and the conditions had been fulfilled, it would be nonsense to carry out a condition that was not necessary; that is, to make double delivery. That is what I thought would be nonsense.

Gentlemen of the committee, I thank you very much for your hearing.

The CHAIRMAN. The committee is very grateful to you, Mr. Osborne.

Are there any others in the room desiring to be heard this morning? [A pause without response.] Gentlemen of the committee, Mr. A. W. Harwood, of Peoria, representing the board of trade; and Mr. D. J. Colgan, cashier of the Wyoming National Bank, Wyoming, Ill., wish to be heard this afternoon.

Mr. HULINGS. There is a matter I want to call the attention of the committee to. It is a bill I introduced in the Congress in 1914, and I believe therein lies another suggestion.

The CHAIRMAN. What is that bill?

Mr. HULINGS. It is bill H. R. 18591, of date August 21, 1914. This bill substantially provides that all these contracts shall designate what it is that is to be delivered, and it makes no difference through how many hands a commodity may pass it must be consummated at the end by the actual delivery of the stuff; that any contract that does not comprehend an actual delivery of the stuff is illegal and a gambling contract. From the discussion that has been going on here this morning I believe there is something in that.

The CHAIRMAN. That would restrict operations considerably. There would not be much left.

Mr. HULINGS. It would not prevent futures. You could deal all you like in futures, but at the end the contract must be fulfilled by delivery of the stuff. And that a contract that did not comprehend that would be a gambling contract prohibited by the statute.

The CHAIRMAN. These gentlemen say that hedging is necessary; that the one who hedges is taking out what they claim a form of insurance, but that he does not want delivery at the end of the hedge.

Mr. HULINGS. It is not necessary in the iron business or in the furniture business, and I think that is only a plea.

The CHAIRMAN. If there is nothing further the committee will now stand in recess until 2 o'clock p. m.

(Thereupon, at 11 o'clock and 50 minutes p. m., the committee recessed until 2 o'clock p. m.)

AFTER RECESS.

The committee resumed at 2 o'clock p. m., pursuant to recess.

Mr. MCLAUGHLIN of Michigan (presiding). The chairman is for the moment engaged on a very important matter, and he asked me to call the meeting to order and begin the hearings, and he will be here in a few minutes.

Who is the first gentleman who is to be heard this afternoon?

Mr. HARWOOD. I believe I was to be heard.

Mr. McLAUGHLIN of Michigan. You may take the witness chair and give to the reporter your full name, place of residence, and state whom you represent.

STATEMENT OF MR. A. W. HARWOOD, OF PEORIA, ILL., REPRESENTING THE PEORIA BOARD OF TRADE.

Mr. HARWOOD. My name is A. W. Harwood and I live at Peoria, Ill. I represent the Peoria Board of Trade and a commission firm operating some 22 to 24 elevators.

Mr. McLAUGHLIN of Michigan. You may make your statement.

Mr. HARWOOD. I hope, gentlemen of the committee, you will pardon my lack of oratory. The Peoria Board of Trade does not deal directly in the handling of futures. That is, we have no future market of our own. We deal in futures through the different exchanges, such as at Chicago mostly, and some in St. Louis. The members of the Peoria Board of Trade feel that the present system of marketing grain is entirely satisfactory; that should any legislation be passed against the present system of marketing grain it would be detrimental not only to the different exchanges or grain markets, but to the country dealers, and would have a direct effect upon the producers.

Mr. McLAUGHLIN of Michigan. Would that effect be bad or good.

Mr. HARWOOD. Pardon me, Mr. Chairman, but if you will allow me to make what few remarks I have to make I will be glad to answer your question.

Mr. McLAUGHLIN of Michigan. Very well, I will withdraw the question.

Mr. HARWOOD. The Peoria Board of Trade, as I understand it, was primarily a market composed mostly of the industries there located. Possibly we are all familiar with the substance they manufactured principally; I mean by that, liquor. The Peoria distilleries at one time consumed, approximately, 30,000 bushels of corn per day in the manufacture of alcohol and whisky, mostly whisky at that time. In addition to that we have the Corn Products Co., consuming at the present time—that is, until the present business depression closed them down—some 30,000 bushels of grain a day. At the present time their plant is under reconstruction or remodeling, whereby they will consume some 60,000 bushels a day. In addition, we have other industries there, before the depression, and even at that time when there were industrial markets for their output, such as alcohol, and they were in the business of buying cash grain. I mean by that that we were able to sell alcohol; and they were able to sell whisky, on the basis of the future as it existed at the time they made any such contract. In that way, as commission merchants, at that time we were able to sell to these distilleries cash grain, cash corn, I will say, on the basis of the future market. We, in turn, were able to go to the dealer and buy his cash grain on the basis of the future, thus insuring us a small amount of profit. We were able at all times to handle a large amount of product on a small percentage of profit, which I believe averaged about the regular commission rate which we are able to charge, which is 1 per cent, and at the present price of grain would amount to five-eighths or three-quarters of a cent per bushel to the commission merchant.

Of course, the manufacture of whisky was done away with by legislation. In addition, general business conditions have entered into the business of the Peoria Board of Trade to an extent; but the Corn Products Corporation, and the old whisky trust, which has recently been converted into the United States Food Products Corporation, by reason of business conditions, have been forced to slow down, because of lack of sale for their products, and therefore we must now sell grain on the future market. If we were not able to so sell our product—and of the product that we handle and that is usually sent to Peoria, 70 per cent of which usually goes to these home industries—if we could not handle grain with safety to ourselves we could not make purchases on the small margin that we receive, varying from five-eighths to three-quarters of a cent a bushel. If we were not able to base our present prices of contracts on the future market we could not go to the country grain dealer and buy his grain.

For instance, after the wheat crop of Kansas and the southwestern States had been grown we were without a wheat futures market. Peoria is not a wheat market, we do not claim that. But as commission merchants, take our firm, for instance, Harwood, Young & Co., and we can handle a considerable amount of wheat to Baltimore for export. We knew, according to the Government figures, the amount of wheat that had been raised. We felt bullish on the market. We had no future market at that time by which to protect ourselves. But we did make sales to the exporters at Baltimore at a price, figuring the freight differential between Baltimore and Peoria, and we sold them this wheat short—not in the millions of bushels, it is true, but we did a nice wheat business.

We, in turn, went to the country and bid the country dealers a price. And I might say that that price was at a margin about four times as much as we would have made if we had had a future market for our protection. And that was for the simple reason that we did not have protection, and we were not willing to handle wheat on a margin of 2 cents or 2½ cents a bushel, which would have been 1 per cent. In fact, we made from 7 cents to 10 cents per bushel on the contracts. We had to do that because we had no future market in wheat, and we had to handle the wheat because our customers were calling for wheat. We naturally made a profit, and, under those circumstances, the profit was about four times as much as we would have made had we had the future market as a means of protection.

Gentlemen of the committee, I do not know that I have anything further to say, except that the Peoria Board of Trade is highly in favor of the present system of marketing. By that I mean the exchange methods and the right and privilege of handling futures. At the present time we are handling a considerable amount of grain in Peoria simply by reason of the fact that we are handling it for the farmers. We have short freight rates to Peoria, and can handle it quicker than Chicago, with all due respect to Chicago; and we do not have to shift the cars, and are therefore handling a nice business.

At the present time, and this time has existed since the close of the industries by reason of the business depression—and we have not been able to buy grain unless we could go to the future market

and protect ourselves—we are handling some grain, cash grain. I know at the present time we are handling cash corn that costs us anywhere from 90 cents to $1.20 a bushel on the track at Peoria. And we are handling it at a profit which amounts to around three-quarters of a cent to one and one-quarter cents a bushel.

It is true that we would not have been able to buy this cash grain unless we were able to go into the market and protect ourselves by a hedge. We are not speculators in the true sense of the word, but we did speculate in wheat, I admit, as I have stated, and we had to make the farmer pay for it.

Mr. TINCHER. That was a period of time between the time when the Government let loose the grain and the exchanges resumed business?

Mr. HARWOOD. That is right.

Mr. TINCHER. From June of this year to the middle of July?

Mr. HARWOOD. That applies to wheat.

Mr. TINCHER. You did not at that time suspend business, but you sold wheat to wheat dealers and bought of the farmers?

Mr. HARWOOD. We bought of the dealers.

Mr. TINCHER. And by that arrangement you made more money than you have made since, and on every bushel of wheat you handled?

Mr. HARWOOD. I claim that we made about four times as much as we would have made, per bushel, had we had the privilege of protecting ourselves on the future market. We did not handle as much wheat but we made more per bushel on the wheat that we did handle.

Mr. TINCHER. But you did not suspend business during that time?

Mr. HARWOOD. No, sir; we can not afford to suspend business.

Mr. TINCHER. You cite that time as an example?

Mr. HARWOOD. Yes, sir.

Mr. TINCHER. To show that the trade in grain futures has been beneficial to the farmer, do you?

Mr. HARWOOD. Sir?

Mr. TINCHER. You think that trading in grain futures is beneficial to the farmer, do you?

Mr. HARWOOD. I claim that the privilege to the farmer or to the business man or to anybody else to trade in futures is of direct benefit to the farmer?

Mr. TINCHER. The fact is that there never was a time in the producing section when market conditions were more satisfactory to the farmer than during that period. And if they are more satisfactory to you, because you say you made three or four times as much money, I can not see your objection to continuing to do business in that way?

Mr. HARWOOD. The point I want to make, to show the difference between our legitimate profit and the profit that we made, is to say that, by reason of the fact that we were not then allowed to hedge, we had to charge a greater margin to protect ourselves than at times when we are allowed to hedge. At the present time we are allowed to hedge, and we are getting about 1 per cent on the average, which is not over 2 cents a bushel; and when we were not allowed to hedge our margin was from 7 to 10 cents a bushel.

Mr. TINCHER. The price of wheat only fluctuated during that time about 7 cents a bushel. The farmers had a good cash market for

every bushel of wheat they had, and other dealers were buying and shipping; and, in addition, you say you made more than you ever made before, or that you now make or want to make. If that is true, what is your objection to that plan?

Mr. HARWOOD. I say we were making more cents per bushel. We are handling more bushels of grain now, and will probably make more money in the long run; but, at that time, we made more cents per bushel.

Mr. TINCHER. When you say you handled more bushels, do you mean in actual wheat?

Mr. HARWOOD. Oh, we will be 25 times better off, because we can now go to bed, and go to sleep. Then we were speculating, and had no protection at all.

Mr. TINCHER. And wheat has fluctuated since that time as much as 10 cents or 12 cents a bushel a day?

Mr. HARWOOD. Oh, yes; and 40 cents a bushel.

Mr. TINCHER. Has it really fluctuated that much in a day?

Mr. HARWOOD. Well, that is a rather extreme statement, but it has fluctuated a great deal.

Mr. TINCHER. I had never heard of that.

Mr. HARWOOD. We being in the business would naturally hear of it.

Mr. TINCHER. When was that fluctuation as high as 40 cents a bushel in a day?

Mr. HARWOOD. That 40 cents is probably exaggerated, but a fluctuation of 20 cents a bushel in a day was not out of the ordinary.

Mr. TINCHER. You never knew any such fluctuation as that when there was no gambling in futures?

Mr. HARWOOD. What do you mean by "gambling in futures"?

Mr. TINCHER. Well, if you prefer, I will say indulging in futures at the expense of the producer.

Mr. HARWOOD. I am not able to quote exact dates, but I do know as a commission merchant handling wheat that without futures the business was more hazardous, and that the only way we could handle it was at a margin that was four times greater than we usually have, and that we had to charge that in order to have protection.

Mr. TINCHER. You bought Kansas wheat mostly, did you say?

Mr. HARWOOD. No, sir; we bought Illinois wheat. We do not handle Kansas wheat much.

Mr. TINCHER. I thought you said you handled Kansas wheat.

Mr. HARWOOD. I say at the time I mentioned the Kansas wheat had been grown, and that the figures of the Department of Agriculture were out, and we felt bullish on the market.

Mr. TINCHER. And some one else felt bullish. But as soon as the market opened they began to bear it?

Mr. HARWOOD. You mean the future market?

Mr. TINCHER. Yes. They now have May wheat 16 cents and 17 cents below the cash price of delivered wheat.

Mr. HARWOOD. Well, I am not in a position to state why that exists, except that my opinion is there is a lack of wheat stocks in some terminal elevators.

Mr. TINCHER. It did not make any difference whether you felt bullish or bearish, because the market did not change more than 7 cents during the time of Government regulation. But when they

went back to trading in futures, when that started, the gentlemen on the board of trade began to feel bearish or bullish?

Mr. HARWOOD. That is rather a big question.

Mr. TINCHER. Don't you think that is the case?

Mr. HARWOOD. I did not get the question.

Mr. TINCHER. The attitude of the men in the trade is that it affects prices when they are operating on futures?

Mr. HARWOOD. Not necessarily. When we could not hedge on wheat somebody must pay for that protection, and one offsets the other.

Mr. TINCHER. You trade on the Chicago Board of Trade?

Mr. HARWOOD. Absolutely.

Mr. TINCHER. And on the St. Louis Board of Trade?

Mr. HARWOOD. Yes, sir; but mostly at Chicago.

Mr. TINCHER. You have no law in Illinois to prevent bucket-shop business, have you?

Mr. HARWOOD. How was that question?

Mr. TINCHER. You have no State law there against bucket shops?

Mr. HARWOOD. The operation of a bucket shop is not legal. We have no bucket shops in Illinois.

Mr. TINCHER. You use the Chicago market?

Mr. HARWOOD. It is the biggest market in the world and we naturally use Chicago.

Mr. TINCHER. Do you know how many times the average bushel of wheat is bet on, or is bought and sold on the market?

Mr. HARWWOD. No. But I do know this: I have handled cash corn myself, and I have known the same car to be sold fifteen times. I could not say as to the amount of futures traded in, as I am not posted.

Mr. TINCHER. I think that is all.

The CHAIRMAN. Are you a member of the Board of Trade of Peoria?

Mr. HARWOOD. Yes, sir.

The CHAIRMAN. You have an exchange there?

Mr. HARWOOD. We have a cash grain market there, Mr. Chairman. We have no futures market. We do our future marketing in Chicago and St. Louis, and the same thing applies to the country dealers. They hedge through us on the Chicago market and on the St. Louis market.

Mr. TINCHER. None of you make a practice of hedging except in your own trading? You do not play the board of trade as a business, do you?

Mr. HARWOOD. Not as a business. We do it as a pastime, as you might call it. I may take a few trades myself, but not as a firm.

Mr. TINCHER. Without regard to hedging?

Mr. HARWOOD. Yes; I admit that I personally speculate in grain.

Mr. TINCHER. I understood that you were advocating the present marketing system by reason of the hedge afforded?

Mr. HARWOOD. That is true. We have a clientele in Illinois adjacent to Peoria, and I venture to say that 80 per cent of our futures is done for country dealers as a hedge.

Mr. TINCHER. It would not interfere with your business much to put rather a sever tax on deals that were not made for the purpose of legitimate hedging, would it?

Mr. HARWOOD. I did not just get that straight.

Mr. TINCHER. I asked would it interfere then with the Peoria exchange much to put a rather severe tax on trades that were not made as a legitimate hedge?

Mr. HARWOOD. We as members of the Peoria Board of Trade realize that if you were going to impose such a tax as you suggest the possibilities of hedging would be so limited that we would not have a broad market and we could not hedge when we wanted to. We would suffer directly, and the farmers and grain dealers would suffer indirectly.

Mr. TINCHER. If you could not use the futures market to handle three times the amount of grain that you handle in a year, without any tax, it would handicap you, would it, to have a tax?

Mr. HARWOOD. Yes; I think so. The market would be narrow. Large dealers in the country might get together and make a particular trade, but I doubt if you could find a buyer to take care of the surplus. That is merely possible.

Mr. MCLAUGHLIN of Michigan. You are buying and selling actual grain, are you?

Mr. HARWOOD. Yes, sir.

Mr. MCLAUGHLIN of Michigan. And there is nothing in the nature of gambling about that?

Mr. HARWOOD. Well, I do not call trading in cash grain or in future grain gambling.

Mr. MCLAUGHLIN of Michigan. Well, I was speaking of dealing in the actual product. You buy and sell actual grain?

Mr. HARWOOD. We deal in actual grain, and we buy cash grain and sell futures. We know that we can sell a future before we buy cash grain, as a matter of protection.

Mr. MCLAUGHLIN of Michigan. Why isn't selling futures gambling?

Mr. HARWOOD. Well, I do not know that you would call it gambling.

Mr. MCLAUGHLIN of Michigan. Well, I use that word in no disagreeable sense but as descriptive of the transactions that are had to-day and to which that word is usually applied.

Mr. HARWOOD. If I sell a future against cash grain that I am purchasing I do not consider myself gambling. Pardon me, but I confine gambling to petty practices.

Mr. MCLAUGHLIN of Michigan. Why isn't your transaction, standing by yourself, just like a transaction of two men neither of whom ever saw a bushel of wheat or had any idea of ever receiving or delivering wheat?

Mr. HARWOOD. Pardon me, but it does not bother me who is buying the other end of the transaction I am conducting if I buy cash grain.

Mr. MCLAUGHLIN of Michigan. As far as your hedge is concerned what is the difference between you and the other man who takes the other end of the same transaction, the other man not dealing in the real article at all?

Mr. HARWOOD. As to the gentleman who takes the other end of my transaction, for instance, if I sell 5,000 bushels against May wheat, he is investing in grain, and it is immaterial to me whether he makes money or loses money.

Mr. MCLAUGHLIN of Michigan. Isn't he betting on what the price of grain will be at a future time?

Mr. HARWOOD. Well, I know that in the natural course of events I am protected when I sell my hedge, because I have the carrying charge insured. For instance, if I sell May corn now against cash corn, I know what it costs to carry the corn to May, and I know there is a profit of from 2 cents to 3 cents a bushel in it.

Mr. TINCHER. Suppose you sell May wheat?

Mr. HARWOOD. I would not sell May wheat, but would sell March wheat.

Mr. TINCHER. There is a margin on March wheat?

Mr. HARWOOD. Yes, sir.

Mr. TINCHER. Would you sell more wheat?

Mr. HARWOOD. No; I would sell the same amount of March wheat, simply because in normal times cash wheat will follow the March wheat future to an extent that I am protected. There may be possibilities, of course, that I might lose a quarter of a cent or half a cent a bushel, but I am protected.

Mr. TINCHER. There is a difference of 10 cents or 11 cents now.

Mr. HARWOOD. Yes, sir.

The CHAIRMAN. You would not sell for cash now and buy futures if you had wheat in your possession, would you?

Mr. HARWOOD. No; I am talking about the other end of the trade. In case I would buy cash wheat the chances are I would sell March wheat at the moment. I admit that cash wheat is breaking at the present time, and I do not know why.

The CHAIRMAN. If you buy cash wheat now and sell March wheat that is a pure speculation?

Mr. HARWOOD. It is, but it is a pretty fair hedge.

The CHAIRMAN. If you have cash wheat and can sell it and buy March wheat it is speculating?

Mr. HARWOOD. No; I am selling cash wheat at the price of $2.10 and buying in March at a discount, and that is good business, knowing I will get No. 2 wheat in March.

The CHAIRMAN. If you were a producer it would not be good business, would it?

Mr. HARWOOD. Pardon me, but you only have one end of the trade when you say I sold my cash wheat.

The CHAIRMAN. The producer has only one end of the trade. When he disposes of his wheat that is the end of it with him. If he buys again that is a speculation?

Mr. HARWOOD. If I were a producer of wheat and I felt bullish on wheat I would sell cash wheat now and buy March wheat at a discount.

The CHAIRMAN. By so doing, what would you gain?

Mr. HARWOOD. It depends upon the outcome of the market. I say if I felt bullish, instead of carrying cash wheat I would sell it and buy futures.

The CHAIRMAN. And what you can do the farmer can do?

Mr. HARWOOD. Yes, sir.

The CHAIRMAN. The farmer can sell his wheat to-day and buy it back again for delivery in March and make 10 cents a bushel, is that right?

Mr. HARWOOD. Yes, sir; or whatever it is, 10 cents or 11 cents. That is good business I say.

Mr. McLAUGHLIN of Michigan. Can the farmer do just what you do?

Mr. HARWOOD. Absolutely.

Mr. McLAUGHLIN of Michigan. You make a contract with a farmer for the delivery of a 1,000 bushels of No. 1 wheat, and he has to deliver it. When you make a contract on the board of trade to deliver 1,000 bushels of No. 1 wheat, you can deliver something below that?

Mr. HARWOOD. I think that comes under No. 2 wheat.

Mr. McLAUGHLIN of Michigan. Can you do it?

Mr. HARWOOD. We could deliver inferior wheat on a penalty, yes, sir.

Mr. McLAUGHLIN of Michigan. Well, then, a farmer can not do what you can do?

Mr. HARWOOD. Absolutely he can.

Mr. McLAUGHLIN of Michigan. Oh, he could go on the board of trade and buy and sell, just as you do, if he is a member——

Mr. HARWOOD (interposing). Well, that is the same thing.

Mr. McLAUGHLIN of Michigan (continuing). But you are using an illustration of what he can do in carrying on his business, and likening his business to yours and saying the two transactions are the same?

Mr. HARWOOD. I was simply quoting the Chairman's suggestion that if I felt bullish on March wheat I would sell cash wheat and buy March. That is a different end of the trade that I, as a commission merchant, would not engage in.

Mr. McLAUGHLIN of Michigan. When you buy grain at a certain price you go in and sell it?

Mr. HARWOOD. Yes, sir. But as commission merchants that is not necessarily so, because, as I said, we are a local market and we are handy to the surrounding territory, and grain is shipped into Peoria instead of into Chicago.

Mr. McLAUGHLIN of Michigan. You can answer my question yes or no. On your hedge, when you sell the same amount of wheat that you have bought, do you contemplate delivery of that wheat that you bought on hedge?

Mr. HARWOOD. In the true sense of the word we do contemplate delivery. It is our privilege to throw that on another market, say Chicago, if we so desire, and in that way we are protected.

Mr. McLAUGHLIN of Michigan. I do not want to reflect on you gentlemen, and you may be entirely right in saying these transactions are necessary, but at the same time you are not entirely fair when you do not directly answer a question such as you were asked just now, if, when you hedge do you contemplate delivery? I venture to say that in 99 cases out of 100 there is no idea of delivery.

Mr. HARWOOD. I will say as a commission merchant we do contemplate delivery. It is a contract and we expect to deliver it.

Mr. McLAUGHLIN of Michigan. You can be compelled to make delivery, yes.

Mr. HARWOOD. Yes, sir.

Mr. McLAUGHLIN of Michigan. But you can distinguish between the two just as well as I can, and can understand my question.

Mr. HARWOOD. We expect to make delivery, absolutely.

Mr. VOIGT. As a matter of fact, do you make delivery?

Mr. HARWOOD. Well, as I tried to suggest, we, as Peoria Board of Trade commission merchants, if it is to our advantage to use that grain in Peoria rather than in Chicago, we do not make delivery in Chicago. We, in turn, use cash grain in Peoria to better advantage to ourselves, and buy in the futures contract in Chicago, and thereby fulfill our Chicago contract.

Mr. VOIGT. Suppose you take all the hedges that you have sold in the last 12 months, and how many of those hedges have you actually made delivery of grain on, by percentage?

Mr. HARWOOD. Well, I am not in a position to give you a percentage on that. I could not say.

Mr. VOIGT. What is your judgment?

Mr. HARWOOD. Well, if you will pardon my expression, I would rather put it this way: What I started out to say was that we use the futures market as a matter of protection. Ultimately we expect to make delivery, but if we can use cash grain to better advantage in Peoria we use it there and close the contract in Chicago. I can not give you the actual percentage of contracts that we make delivery on.

Mr. VOIGT. I am asking you a question, and I think you are absolutely able to answer it. I am asking you what your judgment is as to the percentage of cases when you have actually made delivery on a hedge, or on hedges that you have sold during the past year?

Mr. HARWOOD. Well, I would say, and you understand I am estimating it, 50 per cent.

Mr. VOIGT. That you would deliver on 50 per cent of the hedges that you sold or bought to protect yourself?

Mr. HARWOOD. Well, as I say, approximately 50 per cent; yes, sir.

Mr. VOIGHT. Well, you made the hedges, in the first place, in order to secure some other transaction?

Mr. HARWOOD. To insure a degree of safety; yes, sir.

Mr. VOIGT. It is a good deal like the man taking out an insurance policy on his house, to protect his property in case of fire?

Mr. HARWOOD. Yes, sir.

Mr. VOIGT. Well, I want to say to you that your answer is very remarkable, that you would actually close up 50 per cent of those hedges by delivery?

Mr. HARWOOD. Well, as I tried to explain to you, it all depends upon the time when it is convenient to the farmer to ship grain as to when we make delivery. I buy grain for 30 days' shipment, and he may ship it within 2 days. If Peoria is a better market we will naturally use that grain in Peoria and close out the contract in Chicago. Do you understand? We use the futures market as a protection, and that is all.

Mr. VOIGT. Well, that is not the class of cases I asked you about I do not mean actual delivery of grain in the business you are engaged in. I asked you the number of contracts that you actually

carried out where you hedged on the Chicago market to protect a deal of your own; not how many of these cases for the sale of cash grain did you make delivery on, but how many of these hedging cases did you actually make delivery in?

Mr. HARWOOD. I am not in a position to say, but I would say approximately 50 per cent, though possibly that is too great. I can not say because we handle a large volume of grain in Chicago, and therefore I can not say definitely. Doing a large volume of business it is hard to keep track of these cases.

Mr. McLAUGHLIN of Michigan. Your testimony is similar to that of others who are in the business of handling grain, buying and selling actual grain?

Mr. HARWOOD. Yes, sir.

Mr. McLAUGHLIN of Michigan. That it is necessary for them to hedge. It is also clear enough that there are a number of gentlemen, individuals and companies, dealing on the board of trade who are not dealing in actual grain. They buy and sell for speculation, neither party to the transaction having any idea of delivering or accepting grain. If it is necessary to permit, to legalize, the kind of transactions you are carrying on, or to permit them to be carried on through you, do you know of any way they can be refused to anybody else?

Mr. HARWOOD. I do not. It seems to me that the speculator is absolutely necessary to the futures market in order to stabilize conditions, to take the slack out of the market, so to speak, in a small way.

Mr. PURNELL. Do you mean the man who is purely a speculator?

Mr. HARWOOD. Absolutely.

Mr. PURNELL. And who never intends to make delivery?

Mr. HARWOOD. Yes, sir; there has to be somebody to take the other end of the trade.

Mr. PURNELL. He bets on the thing, whether it is going up or down?

Mr. HARWOOD. He is speculating in grain; yes, sir. You can call it speculating or investing or anything you want.

Mr. PURNELL. You think it is absolutely necessary?

Mr. HARWOOD. Yes, sir; I think he is necessary to stabilize the market so that cash grain which comes in from the farmer may find a market whenever he wants to sell.

Mr. McLAUGHLIN of Michigan. I am not very familiar with the market, but as to stabilizing the market we are led to believe by what quite a number tell us that the selling side of the transaction; that is, the man who has the most money or the most nerve can influence the price in his favor.

Mr. HARWOOD. No; not necessarily.

Mr. McLAUGHLIN of Michigan. And that it has that effect?

Mr. HARWOOD. Not necessarily. I know of rather a large firm that lost plenty of money on September corn.

Mr. McLAUGHLIN of Michigan. Perhaps they did not have money enough to carry the deal through to the end, or else did not have the nerve.

Mr. HARWOOD. They carried it through to October, I understand, but that is merely hearsay.

Mr. McLAUGHLIN of Michigan. Then, in your opinion, there is no way in which the price may be improperly influenced, either up or down, by the dealings in a speculative way on the boards of trade?

Mr. HARWOOD. Well, that is rather a broad question. I hardly think so. I feel that the law of supply and demand will eventually rule.

Mr. McLAUGHLIN of Nebraska. I believe he said, will eventually rule.

Mr. HARWOOD (continuing). Inclemencies of weather, etc., might have a temporary effect. But that has nothing to do with the ultimate output.

Mr. McLAUGHLIN of Michigan. In a month's time, when supply and demand are practically the same throughout the entire month, prices on the boards of trade fluctuate materially?

Mr. HARWOOD. That is probably due to increased receipts, or lack of foreign demand, or anything of that kind. Those are daily occurrences which we consider petty.

Mr. McLAUGHLIN of Nebraska. You say that the law of supply and demand will eventually control it?

Mr. HARWOOD. Yes, sir.

Mr. McLAUGHLIN of Nebraska. Eventually, you say, but temporarily it is possible to so manipulate thep rice as to push it up or down, isn't that so?

Mr. HARWOOD. I did not say that.

Mr. McLAUGHLIN of Nebraska. I know you didn't say that, but isn't that the deduction that may be made from what you did say?

Mr. HULINGS. What proportion of the trades made on your exchange do you think are purely speculative?

Mr. HARWOOD. We have no futures market on our own exchange, as I explained when I first started out on my statement. We handle our futures in Chicago. Peoria is not a futures market.

Mr. HULINGS. Do you have many spot transactions where the transactions culminate in simply paying the difference in money?

Mr. HARWOOD. Cash grain transactions?

Mr. HULINGS. Yes.

Mr. HARWOOD. Yes, sir.

Mr. HULINGS. What proportion of the transactions are of that character?

Mr. HARWOOD. Well, I could not say. Of course, during the car shortage they were greater than they are now, owing to inability of shippers to furnish cash grain. Now, of course, we have the cars, and they are a great deal smaller than they were. I could not answer that question.

Mr. HULINGS. Those transactions are not necessary as a hedge of any sort, are they?

Mr. HARWOOD. Do you mean future transactions?

Mr. HULINGS. No; I mean spot transactions?

Mr. HARWOOD. Well, we do not call that hedging. We call that outright selling of a cash commodity.

Mr. HULINGS. I know, but you call it a cash transaction without any reference at all to your expectation that the commodity will ever change hands?

Mr. HARWOOD. Oh, yes; we do.

Mr. HULINGS. You merely pay the difference?

Mr. HARWOOD. No; not in that case. That is a cash transaction, where the commodity must be delivered and where the seller must make delivery.

Mr. HULINGS. I understand, of course, there must be deliveries on actual trades, but I have not understood you to say that on transactions on your exchange of spot grain it is contemplated that there shall be a delivery of the stuff itself?

Mr. HARWOOD. Oh, yes.

Mr. HULINGS. Merely an exchange of money representing the difference?

Mr. HARWOOD. No; we make delivery. If we sell corn for 10 days' delivery we deliver the corn in 10 days.

Mr. HULINGS. I am not asking you what you do but what has been done or is done on your exchange?

Mr. HARWOOD. Well, the commission merchants are the only people who deal on the exchange. We do not deal for ourselves on the exchange. We have no sort of speculative market.

Mr. HULINGS. You have no speculative transactions at all in spot stuff?

Mr. HARWOOD. No, sir.

Mr. VOIGT. All grain bought and sold on your exchange in Peoria is delivered?

Mr. HARWOOD. Well, as I say, a large percentage is. Certain things may make it impossible to deliver, such as car shortage and such cases as that. In those cases the contract has to be bought in and the difference paid or an extension of time granted and money paid therefor.

Mr. VOIGT. Unless there is some intervening cause that makes physical delivery impossible, is the grain sold on your exchange always delivered?

Mr. HARWOOD. Absolutely; yes, sir.

Mr. VOIGT. How many members have you on your exchange?

Mr. HARWOOD. I think something like 137.

Mr. VOIGT. Can you tell us how much grain changes hands in a year on that exchange?

Mr. HARWOOD. The year before last, when I was president, we handled in 24,000 cars and out 12,000 cars. I can not give you last year's figures. Those were carload lots.

Mr. VOIGT. The most of the grain that your firm handles is local grain?

Mr. HARWOOD. Yes, sir.

Mr. VOIGT. You buy it for local concerns?

Mr. HARWOOD. Yes, sir; the most of it.

Mr. VOIGT. Those concerns come to you and give you an order for so much corn?

Mr. HARWOOD. Yes, sir.

Mr. VOIGT. And ask you what you can supply it for?

Mr. HARWOOD. In some cases they do and in other cases the country dealer will call us and ask us what we can give them for corn, and we must have a bid on hand whereby we can assure ourselves a profit. If it were not for the futures market we could not do that. We bought this corn I referred to in September and paid $1.10 for it on the track at Peoria.

Mr. VOIGT. Suppose a country dealer telephones you and says he has 500 bushels of corn and there is nobody in Peoria at that time who wants that corn?

Mr. HARWOOD. All right.

Mr. VOIGT. What do you do?

Mr. HARWOOD. We buy the cash corn on the basis of the future and sell a future as a protection. When the cash corn arrives in Peoria we take off the future and sell the cash grain to whoever we may sell it to at the time.

Mr. VOIGT. You make to the country dealer a price simultaneously with your hedge?

Mr. HARWOOD. With our possible hedge. If we did not have the basis of the future we would not make the bid.

Mr. VOIGT. What do you do then? Do you call up Chicago to know what you can get futures for?

Mr. HARWOOD. We have got ways of knowing what the futures market is. We must know that in order to deal. We receive continuous quotations from Chicago.

Mr. VOIGT. Oh, you have a wire there?

Mr. HARWOOD. Different members of the Peoria Board of Trade have wires.

Mr. VOIGT. And on the basis of that quotation you make a quotation to the country dealer?

Mr. HARWOOD. Yes, sir. We can do it and do do it.

Mr. VOIGT. And when he accepts you make a hedge?

Mr. HARWOOD. Yes, sir.

Mr. WILSON. Don't you usually pay a little more for corn in Peoria than they pay elsewhere?

Mr. HARWOOD. I wish we did, and then we would get more business.

Mr. WILSON. I thought you did.

Mr. HARWOOD. I think you are misled by the fact that there was a demand for alcohol during the war which caused the price of grain to advance at Peoria, but since that time we have been under Chicago. If it were not for the fact that we have a futures market now, as our industries are closed, we would not be able to handle any grain.

The CHAIRMAN. Are you not a distributing point for the South?

Mr. HARWOOD. Our rates from Peoria to the South are in a way beneficial to Peoria. We handle considerable grain to the South; yes, sir.

The CHAIRMAN. You have feed mills there, have you not?

Mr. HARWOOD. Yes, sir. Or not so much feed mills but we have the American Milling Company, which is a large company; and we have the American Corn Products Corporation, which is a large company, but at the present time they are closed.

Mr. MCLAUGHLIN of Michigan. You make different kinds of products out of grain; what kind of grain, principally?

Mr. HARWOOD. Corn.

Mr. MCLAUGHLIN of Michigan. What are those products?

Mr. HARWOOD. Karo corn sirup, glucose, and starch.

The CHAIRMAN. The manufacturers of feed are large consumers of corn?

Mr. HARWOOD. Yes, sir. The American Milling Co. use large quantities of wheat, rye, and so forth.

The CHAIRMAN. For the production of feed?

Mr. HARWOOD. Yes, sir; for mill feed and chicken feed.

The CHAIRMAN. Do they buy direct from the mills?

Mr. HARWOOD. They buy directly from the commission merchants. We supply them with grain. We make contracts with them and buy from the country to fill them.

The CHAIRMAN. Any more questions, gentlemen of the committee?

Mr. DICKINSON. I would like to ask a question or two.

The CHAIRMAN. All right, Mr. Dickinson.

Mr. DICKINSON. You have described a transaction wherein you would buy futures to cover cash grain. What if the future did not cover the grain at that time, what insurance or protection then is the future?

Mr. HARWOOD. Of course, during the war, the futures, due to car shortage and other things which arose since, made an abnormal market, but at normal times we feel that we are absolutely protected by hedging, that prices will follow.

Mr. DICKINSON. Can not you cite half a dozen instances within the last few years where the future has not followed the cash price, and therefore your future was not an insurance to you at all?

Mr. HARWOOD. Yes. As I said, during the war certain things arose which made it impossible. But I am talking about normal times.

Mr. DICKINSON. In normal times does the future always follow the cash price?

Mr. HARWOOD. There may be a few instances where they do not, but very few.

Mr. DICKINSON. What about when some man comes in with a large amount of money and sort of what we call corners the market?

Mr. HARWOOD. We do not have any corners.

Mr. DICKINSON. You do not have any corners?

Mr. HARWOOD. No; not that I am familiar with.

Mr. DICKINSON. You do not think that Armour is able to manipulate wheat if he wants to go in and make a dash or two?

Mr. HARWOOD. I think there is a difference between manipulating and cornering the market.

Mr. DICKINSON. I will say manipulate it, then.

Mr. HARWOOD. Well, I think anybody who has a lot of money, if buying a large number of bushels, can stimulate the market. But somebody has to sell it to him, you must remember.

Mr. DICKINSON. Then under the plan of selling futures as it exists, a large buyer can manipulate the market, can not he?

Mr. HARWOOD. I do not say so.

Mr. DICKINSON. What do you say?

Mr. HARWOOD. I might put it this way: If a large buyer would continue to buy every day, it might have a temporary effect, but it would be temporary, and the law of supply and demand would result sooner or later.

Mr. DICKINSON. Then as I understand the futures market, it is being affected by that system, and prices will fluctuate, a little higher or a little lower, depending whether they want to bull it or bear it, and that has an effect over the ordinary law of supply and demand?

Mr. HARWOOD. That might be due to lack of foreign demand. That is caused by petty conditions that exist any day. We can not prevent that.

Mr. DICKINSON. What conditions exist that might result in that condition?

Mr. HARWOOD. At the moment I would say if exporters would quit buying wheat you would have a lower price for wheat, whereas if they would come in to-morrow morning and buy a few million bushels of wheat they would hedge themselves by protection of the future.

Mr. DICKINSON. Isn't the foreign demand a thing that comes regularly?

Mr. HARWOOD. No, sir.

Mr. DICKINSON. Do you say it is spasmodic?

Mr. HARWOOD. I would say that it is most spasmodic.

Mr. DICKINSON. You think that European buyers buy here sometimes and sometimes buy somewhere else?

Mr. HARWOOD. Yes, sir. We have other markets besides Chicago.

Mr. DICKINSON. If the futures market was entirely cut out of the grain business would not the law of supply and demand down at Peoria, just as it is there, by which you buy corn from the man who has it to sell and sell it to the man who wants to buy, be a good thing? Wouldn't you be able to transact your business without any futures market at all?

Mr. HARWOOD. No, sir.

Mr. DICKINSON. Would not the result of that be that it would put aside about three-fourths of the fellows who are making a good living out of the grain business?

Mr. HARWOOD. I do not think so at all.

Mr. DICKINSON. You do not think you could benefit the board of trade at all if you discontinued it?

Mr. HARWOOD. I do not think we could. I am speaking of Peoria.

Mr. DICKINSON. How does it happen that out in Mr. Tincher's State they do that at Wichita and do not have a futures market on wheat?

Mr. HARWOOD. They have wheat there now.

Mr. DICKINSON. They have a market and carry it on, but do not deal in futures?

Mr. HARWOOD. Do you mean they had that during the war?

Mr. DICKINSON. I mean now. Isn't that right, Mr. Tincher?

Mr. TINCHER. I say the Sedgwick Block in Wichita, a large building, is about full of grain men, and they are in favor of doing away with futures, they tell me, and only a small percentage of them deal in futures at all.

Mr. HARWOOD. I do not care to try to answer that question at all because I am not familiar with Kansas conditions.

Mr. TINCHER. You did business very successfully in wheat without any futures during the war?

Mr. HARWOOD. I admit that.

Mr. TINCHER. The only complaint is that you made too much money out of it?

Mr. HARWOOD. I did not say that.

Mr. DICKINSON. You gave an illustration here of where you sold wheat in Baltimore, and you sold short, and you went out and bought and said that you bought it on a margin of from 7 to 10 cents a bushel?

Mr. HARWOOD. That is true.

Mr. DICKINSON. That was dealing in a commodity which you did not possess. Now, isn't that the practice of a great many grain men under the present marketing system?

Mr. HARWOOD. For instance, you refer to selling futures where you possess it?

Mr. DICKINSON. Yes.

Mr. HARWOOD. That is the practice; yes, sir.

Mr. DICKINSON. And transactions are largely carried on in that way?

Mr. HARWOOD. Well, I could not give you the percentage of them.

Mr. DICKINSON. Do you know what the percentage of future sales at Chicago is as compared to cash transactions?

Mr. HARWOOD. I am speaking for Peoria.

Mr. DICKINSON. For Peoria alone?

Mr. HARWOOD. Yes, sir.

Mr. DICKINSON. What percentage of the transactions of your firm are futures and what percentage of them are cash—of your firm, now?

Mr. HARWOOD. Well, that is rather a hard question to answer.

Mr. DICKINSON. Don't you know in a day's sale whether you buy 10,000 bushels or 100,000 bushels of corn?

Mr. HARWOOD. We might sell actual corn on a contract and not make a future trade on it.

Mr. DICKINSON. Don't you know, as a usual thing, how much future trading your firm does on the Chicago Board of Trade?

Mr. HARWOOD. No; I couldn't tell you in bushels. We do an immense business.

Mr. DICKINSON. Then I take it that your futures business is a great deal larger than your cash business?

Mr. HARWOOD. No, sir. I would say that 90 per cent, understand, of the whole business is on a hedging basis and probably 10 per cent is speculative.

Mr. DICKINSON. Suppose you were permitted a 30-day hedge, during which time you could buy your grain from your country merchant and deliver it on your hedge, could you operate on your present plan under those conditions?

Mr. HARWOOD. I hardly think so; not satisfactorily without an extension of time at the expiration of the 30 days.

Mr. DICKINSON. It is my understanding that you cash out your hedge immediately when you deliver the grain?

Mr. HARWOOD. Yes.

Mr. DICKINSON. And that is the practice of your firm?

Mr. HARWOOD. Yes.

Mr. DICKINSON. Under the present system the future market is purely for the protection of the man who takes grain from the farmer and delivers it to the consumer; isn't that true?

Mr. HARWOOD. Not necessarily. It is of indirect benefit to the farmer.

Mr. DICKINSON. Of indirect benefit in what way?

Mr. HARWOOD. If it were not for the fact that we are able to give him a price and thereby prevent loss to ourselves we could not give him as close a price and he would suffer.

Mr. DICKINSON. In other words, if you can sell short you can go out and make a lot of money, and you are justified in charging that up to the farmer?

Mr. HARWOOD. You understand that we did that when we had no future market.

Mr. DICKINSON. And that is the reason you think you are protected by a future?

Mr. HARWOOD. No; if we had a future market we would not make 10 cents a bushel but 2 cents a bushel probably. When we had to future market and had no protection we had to take 10 cents in order to sleep nights.

Mr. DICKINSON. Do you know what percentage of the elevators in Illinois use the hedge?

Mr. HARWOOD. I could not say as to that, but I would suggest that 90 per cent of the legitimate dealers do.

Mr. DICKINSON. Do you call the individual out there who runs an elevator in some small town in Illinois who buys grain at his own risk and sells it for what he can get for it a legitimate dealer?

Mr. HARWOOD. Absolutely, because he has the advantage of the future market.

Mr. DICKINSON. Do you know what percentage of the elevators in Illinois use the hedge?

Mr. HARWOOD. I would say 90 per cent of those that are successful do use it.

Mr. DICKINSON. Would you be surprised if I were to tell you that less than 50 per cent use the hedge?

Mr. HARWOOD. No; I would not be surprised. I am estimating it. I know of elevators who do not use it that are broke to-day.

Mr. DICKINSON. Do you know of any that did use it that are broke to-day?

Mr. HARWOOD. No, sir.

Mr. DICKINSON. What about the September corn deal, did that break some of them?

Mr. HARWOOD. No, sir.

Mr. DICKINSON. Didn't you mention somebody?

Mr. HARWOOD. I answered Chairman Haugen's question about having a lot of money. Anybody who had cash corn hedged in September should have had the cash corn there the first of September, and if so he would have secured the price. If he got it there on the first of October that was his business.

Mr. DICKINSON. As a matter of fact, there were some parties who had May and June corn, and they tried to sell it, and they hedged it for October, and lost on both the cash corn and on the futures, didn't they?

Mr. HARWOOD. They were poor grain men then.

Mr. TINCHER. You said a while ago that farmers could buy futures and handle futures; they ought not to do it, I take it.

Mr. HARWOOD. I did not say that.

Mr. TINCHER. You said he could do it?

Mr. HARWOOD. Certainly.

Mr. TINCHER. Now I say, he ought not to do it.

Mr. HARWOOD. That is his business. I am not saying what he should do and should not do.

Mr. TINCHER. He ought to know the game if he is going to play it.

Mr. HARWOOD. The rules are plainly printed in black and white.

Mr. TINCHER. And it does not take any ability at all to handle that matter?

Mr. HARWOOD. If it did I would not be in the business.

Mr. TINCHER. If you have no ability in the business and it does not take any ability, perhaps it would be right to pass a law to just let the law of supply and demand govern, and then you could get into something that you have some ability to handle. I had suspected that you were a pretty keen grain man.

Mr. HARWOOD. No; my partner takes care of that.

Mr. TINCHER. There must be some ability around there somewhere.

Mr. HARWOOD. Yes, sir.

Mr. TINCHER. The farmer has just as much business playing the board of trade as he has trying to succeed Hitchy Koo or Pat Rooney and hope to make a success of it.

Mr. DICKINSON. The farmer figures up as the lamb all right.

Mr. HARWOOD. Anything further, Mr. Chairman?

The CHAIRMAN. Any further questions, gentlemen of the committee? [A pause without response.] We thank you very much, Mr. Harwood.

Mr. HARWOOD. I thank you gentlemen for the opportunity of being heard.

The CHAIRMAN. We will next hear Mr. Colgan.

STATEMENT OF MR. D. J. COLGAN, BANKER, WYOMING, ILL.

The CHAIRMAN. You may proceed with your statement.

Mr. COLGAN. Well, as a banker in our territory and a local grain man I would say that the present system of operating the future market, trading in the future market, is perfectly agreeable with us unless some better system can be adopted. That is about all I have to say now.

The CHAIRMAN. Any questions, gentlemen of the committee?

Mr. MCLAUGHLIN of Michigan. Is there a board of trade in your town?

Mr. COLGAN. No, sir.

Mr. MCLAUGHLIN of Michigan. Do you have occasion to make loans on these grain contracts, hedges, and so forth?

Mr. COLGAN. On which we have occasion to make loans?

Mr. MCLAUGHLIN of Michigan. Yes.

Mr. COLGAN. Yes, sir.

Mr. MCLAUGHLIN of Michigan. As a banker?

Mr. COLGAN. Yes, sir.

Mr. MCLAUGHLIN of Michigan. How extensively do you do that?

Mr. COLGAN. We do it as extensively as our capital and surplus will let us.

Mr. MCLAUGHLIN of Michigan. What is your capital and surplus?

Mr. COLGAN. $75,000.

Mr. MCLAUGHLIN of Michigan. How many of them do you have in the course of a year?

Mr. COLGAN. How many what?

Mr. MCLAUGHLIN of Michigan. Loans on contracts?

Mr. COLGAN. I would not guess at it.

Mr. McLAUGHLIN of Michigan. Do you refuse to make loans to individuals unless they are protected by hedges?

Mr. COLGAN. No, sir.

Mr. McLAUGHLIN of Michigan. Does the fact that hedges have been entered into in any way influence you in the making of your loans?

Mr. COLGAN. With some parties it does, yes. But it depends upon the individual.

Mr. McLAUGHLIN of Michigan. If hedging would not be permitted would it so reduce your business as to interfere with it seriously?

Mr. COLGAN. I think not.

Mr. McLAUGHLIN of Michigan. Well, how are you interested in this matter?

Mr. COLGAN. As a local grain dealer and a banker.

Mr. McLAUGHLIN of Michigan. Have you membership on any board of trade?

Mr. COLGAN. Yes, sir.

Mr. McLAUGHLIN of Michigan. Where?

Mr. COLGAN. At Peoria.

Mr. McLAUGHLIN of Michigan. You are a grain dealer and you buy and sell actual grain, do you?

Mr. COLGAN. In Wyoming, Illinois, yes, sir, and in Peoria.

Mr. McLAUGHLIN of Michigan. But you have membership on the board of trade at Peoria?

Mr. COLGAN. Yes, sir.

Mr. McLAUGHLIN of Michigan. Do you hedge very often?

Mr. COLGAN. Well, I do not handle the grain end of it. We have a manager who does that, and he hedges against his purchases.

Mr. McLAUGHLIN of Michigan. The manager of your company or of the firm of which you are a partner?

Mr. COLGAN. Yes, sir. He attends to that and that in his practice, of hedging against the grain purchases.

Mr. McLAUGHLIN of Michigan. Do you approve of it?

Mr. COLGAN. Yes, sir.

Mr. McLAUGHLIN of Michigan. Can you carry on your business without it?

Mr. COLGAN. The grain business, is that what you speak of?

Mr. McLAUGHLIN of Michigan. Yes, sir. You said it made no difference in your banking business?

Mr. COLGAN. Yes, sir; I think we could operate without it, possibly, but we do not do it and do not feel that we should do it. We feel that it is a protection to us to hedge.

The CHAIRMAN. Does it afford any protection?

Mr. COLGAN. Yes; it does. We are in a corn and oats country there.

The CHAIRMAN. Explain to me where your protection comes in at the present time. Cash wheat is at a premium of about 12 cents over future wheat.

Mr. COLGAN. We have no wheat to speak of there at all. We do not handle wheat. Oh, we may buy one or two hundred bushels a year. So I am not in a position to inform you as to wheat.

The CHAIRMAN. What cereals do you handle?

Mr. COLGAN. Oats and corn.

The CHAIRMAN. How is cash corn to-day?

Mr. COLGAN. I could not tell you, sir.

The CHAIRMAN. Do you accept these contracts as collateral security with your paper?

Mr. COLGAN. Do we accept them as collateral?

The CHAIRMAN. Yes.

Mr. COLGAN. No, sir.

The CHAIRMAN. How do you handle those contracts then for wheat?

Mr. COLGAN. We do not handle the contract. Do you mean the individual contract?

The CHAIRMAN. I understood you to say that you loaned money on futures?

Mr. COLGAN. Yes, sir; of different grain men; that is, grain men other than my own place of operation.

The CHAIRMAN. How do you handle it? Do you accept the contract as collateral security?

Mr. COLGAN. No; I do not mean to say that we accept the contract as collateral, but we know that——

The CHAIRMAN (interposing). You mean to say that you loan money to those that are operating on futures?

Mr. COLGAN. We loan money to the grain dealer to buy grain knowing that he has the stuff because he has already sold the same grain at a profit. That is what I meant to say.

The CHAIRMAN. It has been suggested by one of the witnesses here that bankers loan money on the contracts?

Mr. COLGAN. I would not call it loaning money on the contract. You simply know that there has been grain sold and that there is not going to be a decline in it.

The CHAIRMAN. Were you present when Mr. Turner testified this morning?

Mr. COLGAN. I do not know Mr. Turner.

The CHAIRMAN. I understood from him that it was customary to advance money on those contracts?

Mr. COLGAN. Well, not where I am; not necessarily on the contract.

Mr. TINCHER. Is that a farming community that you live in?

Mr. COLGAN. Yes, sir.

Mr. TINCHER. Do you loan any money to farmers?

Mr. COLGAN. Yes, sir.

Mr. TINCHER. You do not loan money to a farmer who deals on the board of trade in preference to one who does not deal on the board of trade, do you?

Mr. COLGAN. No, sir.

Mr. TINCHER. Your community is composed of substantial farmers, isn't it?

Mr. COLGAN. Yes, sir; two-thirds or three-fourths of them own their own farms I would suppose.

Mr. TINCHER. If they want to hedge their corn will they come in and borrow money at your bank and hedge it?

Mr. COLGAN. Well, I would not say that. They come to the elevator, and get money advanced sometimes, and sometimes to the bank.

Mr. TINCHER. You do not ask them to go and sell some corn on the future market at Chicago, and put up the contract as security?

Mr. COLGAN. No, sir.

Mr. TINCHER. You never did ask a farmer to do that?

Mr. COLGAN. I never did ask a farmer to sell on the future market and put up his contract as collateral?

Mr. TINCHER. You never heard of it being done in your community?

Mr. COLGAN. You are speaking of the farmer now?

Mr. TINCHER. Yes.

Mr. COLGAN. No; I don't think I ever did.

Mr. TINCHER. Of course, you are in the banking business, and farmers have satisfactory credit accommodations in your vicinity, haven't they?

Mr. COLGAN. Yes, sir; we try to accommodate them.

Mr. TINCHER. So it is not necessary for them to have a board of trade or for them to deal on the Chicago market and deal in futures, in order for the farmers of your community to have a credit system?

Mr. COLGAN. No, sir.

Mr. TINCHER. If that applies to California it is not true of Illinois?

Mr. COLGAN. It is not necessary for them to deal on the board of trade at all.

Mr. TINCHER. In some communities I understand that bankers will not loan money to men who deal on the board of trade. But I guess those good old days are gone.

Mr. COLGAN. I think so. If a man has collateral the banker does not usually ask him what he does with his money.

Mr. WILSON. What is land worth down in your country?

Mr. COLGAN. All the way from $300 to $400 or $500 an acre.

Mr. TINCHER. You mean that it sells for that?

Mr. COLGAN. Yes, sir; I would rather put it that way.

The CHAIRMAN. Is it customary for bankers in your section of the country to extend credit to operators on boards of trade, to speculators on boards of trade?

Mr. COLGAN. I do not think we have any what you would call speculators that we loan money to.

Mr. TINCHER. You would not loan money to them if you knew that they did, would you?

Mr. COLGAN. I do not know. You do not mean the grain dealer who is buying and selling grain?

Mr. TINCHER. No; the farmer.

The CHAIRMAN. If he speculates it does not make any difference what his occupation is?

Mr. COLGAN. Well, we loan money to grain dealers there.

The CHAIRMAN. Isn't it a fact that bankers make it a practice not to extend credit to anybody who deals on the board of trade?

Mr. COLGAN. No; I do not think so. I do not know where they would get their credit if the bankers did not give it to them.

The CHAIRMAN. I did not think the bankers extended credit to them. I understood you to say that it was absolutely necessary for you to extend credit to people who took out future contracts?

Mr. COLGAN. You are talking about speculators, are you? I was speaking of grain dealers, and that is all.

The CHAIRMAN. There is pretty much of speculation when you get down to the bottom of it, as stated by the president of a board of trade on yesterday. He said that some people called it insurance, and that others called it hedging, and others called it gambling. If you can give a distinction as between gambling or speculation or hedging we will be very glad to have it.

Mr. COLGAN. I would not attempt to do it.

The CHAIRMAN. I would like to have your definition if you have one?

Mr. COLGAN. I have not.

Mr. PURNELL. Is it your opinion that this practice of dealing in futures is a benefit to the producer; does he profit by it?

Mr. COLGAN. Well now, I do not want to say what the dealing in futures is. I will tell what I know about my community, and about my local grain dealers, and about his deals. If you call that dealing in futures, why, that is necessary.

Mr. PURNELL. Let us take an actual case now: Say a farmer comes in to you and sells 10,000 bushels of corn. You buy 10,000 bushels of corn for future delivery. The thing I am very anxious to get at, and I am trying to do the fair thing in this matter, not because he is a farmer, but because he produces the grain and I want to know the exact position of the man standing in his shoes.

Mr. COLGAN. All right.

Mr. PURNELL. It has been contended here that because of the fact that a dealer can protect himself against loss by buying for future delivery it creates a market for the producer that he would not otherwise have.

Mr. COLGAN. That is just right.

Mr. PURNELL. Does that actually happen?

Mr. COLGAN. That is my opinion of it; yes, sir.

Mr. PURNELL. And is has also been contended that that right to buy for future delivery acts as a protection and that you can deal on a smaller margin, or that if you did buy without that protection you would have to have a wider margin?

Mr. COLGAN. You mean if you would buy——

Mr. PURNELL (interposing). I mean if you would carry the risk yourself, and buy all the grain from the farmer and pay him for it and then resell it so somebody else, that you would have to have a wider margin?

Mr. COLGAN. It would also cramp the grain man because he could not handle very much business.

Mr. PURNELL. I am very much like Mr. McLaughlin of Michigan. My mind is entirely open but I do not know very much about this question and I really want to get information. I am wondering if without this opportunity of hedging, the farmer's product would be backed up on his farm at a time when he wants to sell it to realize money out of it?

Mr. COLGAN. I think it would, yes, sir.

Mr. PURNELL. I am wondering whether or not that would not hurt the fellow who has to convert his crop into cash to meet his obligations?

Mr. COLGAN. Yes, sir; that is just right.

Mr. HULINGS. May I ask you about your operations in buying grain from the farmer. I mean these farmers who have different amounts of grain to sell?

Mr. COLGAN. Yes, sir.

Mr. HULINGS. Say one man comes in with 500 bushels and another man with 100 bushels and another man with 5,000 bushels. You conclude that you are going to buy 10,000 bushels, say.

Mr. COLGAN. From the farmer?

Mr. HULINGS. Yes. When you sell that grain how do you sell it; what is the unit of the contract?

Mr. COLGAN. Well, my idea, to explain it, is that it would be this way: You come in to me and want to sell 10,000 bushels of grain. You want to know how much I am going to pay you for it?

Mr. HULINGS. Yes.

Mr. COLGAN. Well, I know that I am going to have to handle this amount of grain through a commission merchant in Peoria. When I sell that grain I go and hedge it just to make a profit, and then I am perfectly safe on that deal.

Mr. HULINGS. I understand that, but say I come to you and want to sell 500 bushels, and another man comes and wants to sell you 750 bushels, and so on. You do not pretend to hedge every one of those particular contracts, do you?

Mr. COLGAN. Oh, no.

Mr. HULINGS. You sell a hedge before you commence to buy at all, don't you?

Mr. COLGAN. No. Suppose you don't buy it?

Mr. HULINGS. How are you going to tell how many bushels you are going to buy?

Mr. COLGAN. You can hedge 500 bushels if you want to, but we never hedge 500 bushels.

Mr. HULINGS. I asked you about the size of the unit of a contract?

Mr. COLGAN. That depends. Suppose hou have 20,000 bushels?

Mr. HULINGS. You can go on the exchange and sell 10 bushels?

Mr. COLGAN. No; you can not. I think you can sell 500 bushels, but I do not know of my own knowledge. We have never dealt in less than 2,000 bushels. That is the smallest unit at a time I think we have dealt in, to my knowledge.

Mr. HULINGS. I understand you can make it any size you like, but there may be some limit, to contracts I mean?

Mr. COLGAN. Yes, sir; that is my understanding of it.

Mr. HULINGS. Then you go to work and buy grain, don't you, after you have found out what price you can afford to pay? Then you say to the farmer: I will pay you so much?

Mr. COLGAN. Yes, sir.

Mr. HULINGS. At that time, when you are buying it in, how can you be insured? Suppose that spot grain goes up and the farmers will not sell at that price?

Mr. COLGAN. Well, if they do not want to sell you do not have to buy.

Mr. HULINGS. You have already bought it on the exchange?

Mr. COLGAN. If such an occurrence as that happens you have to go and sell it.

Mr. HULINGS. Then it is no insurance to you?

Mr. COLGAN. That would be a mistake on my part, would it? I would not do that intentionally. But if I made a mistake I would have to go and correct the mistake.

Mr. HULINGS. But since you can not buy 10,000 bushels of grain from any one man, and have to go and buy throughout the whole community, from the farmers, perhaps before you get the 10,000 bushels the market has changed on your hedge?

Mr. COLGAN. Well, that would be a very strange circumstance, I would think.

Mr. HULINGS. Suppose the price would be 75 cents a bushel when you started in, and you pay a man on the first allotment 75 cents, but before the other fellow came in the market had gone up to a dollar a bushel, how would your hedge be any insurance?

Mr. COLGAN. Well, really it is not clear to me what you want to know. My idea was this, if you bought 10,000 bushels of grain you would sell 10,000 bushels at the same time.

Mr. HULINGS. Well, I am just suggesting that if you have to buy from a whole lot of fellows you could not buy from all of them simultaneously, and there must be time elapse from the time you begin to buy from one of them until you buy the whole 10,000 bushels?

Mr. COLGAN. That is true.

Mr. HULINGS. During that time don't you have to run the risk of the market?

Mr. COLGAN. Yes.

Mr. HULINGS. And there is no insurance as to that?

Mr. COLGAN. Nothing that I know of.

Mr. RIDDICK. I would like to ask you how the farmers of your section of the country feel about future buying?

Mr. COLGAN. Well, a great many of them use it, so I think they must like it.

Mr. RIDDICK. I am from Montana, and the Montana farmers, almost to a man, as I get their expression, are opposed to grain gambling. I am told that that is the sentiment in Kansas and in other States. I am receiving a number of marked copies of papers indicating that farmers and papers speaking for farmers are opposed to gambling and dealing in futures. Do you think that sentiment prevails among the Illinois farmers?

Mr. COLGAN. Not in the district I come from; not around Peoria and adjacent thereto.

Mr. PURNELL. I want to ask you whether or not you agree with the gentleman who preceded you that those who deal on boards of trade in a purely speculative capacity are essential, as he termed it?

Mr. COLGAN. Well, that is a question that I feel I do not know enough about to answer.

Mr. PURNELL. I have had the idea and I am convinced in my own mind that we can, perhaps, frame some sort of legislation that will maintain the good features of the exchanges and perhaps eliminate the objectionable speculative features?

Mr. COLGAN. Well, that would be all right I would think.

Mr. PURNELL. But the last witness who preceded you said that men who are even pure speculators are necessary in order to stabilize the market. I am wondering what you think about that?

Mr. COLGAN. From what arguments I have heard here it would give me some idea and I would agree with him, because it looks to me like wherever there is that much competition, wherever there is an active market all the time, there would naturally be a better grain market, or any other kind of market.

Mr. HULINGS. Do you think if the whole bunch of us here were sitting around a blackboard, and there were shown thereon quotations from the Chicago Board of Trade, and we were betting with each other what the next quotation would be, whether a quarter of a cent up or a quarter of a cent down, that it would have any effect in stabilizing the market on grain?

Mr. COLGAN. Well, I do not know whether it would or not. As I said before, they have been doing that, and we have had pretty fair markets. If there can be any way devised to change this maybe a little, it would be all right if you can make it better. It was my understanding that there was a bill or two to abolish it and do a lot of things like that, and I want to say that I am certainly in favor of leaving it alone unless you can make it better.

I thank you gentlemen.

The CHAIRMAN. We thank you. We will hear the next witness, Mr. Devore.

STATEMENT OF MR. H. R. DEVORE, REPRESENTING THE TOLEDO PRODUCE EXCHANGE, TOLEDO, OHIO.

Mr. DEVORE. Gentlemen of the committee, I would start out by saying that our exchange in no way does any trading of its own or any grain business. We simply afford a means by furnishing trading rooms, and so forth, where our members can carry on their legitimate grain business, and our board, as a whole, are in favor of the present system of future trading. At present the Toledo Produce Exchange trades only, and in wheat futures, as far as grain futures are concerned.

For the past 23 years I have been in the grain business with my present firm at Toledo, Ohio, and we are known as a "cash grain handling concern," and do what is termed a strictly "hedging" business.

Owing to the fact that we are known as hedgers, we have the confidence of our bankers, our Toledo competitors and in fact every one else with whom we do business.

I wish to say to you that without future trading we fellows at Toledo, many of whom follow our system of operations, would be absolutely lost as to how to proceed in the grain business.

The fact that I have personally made a study of the hedging business as well as the general grain business all these years, and the fact that I am learning something new about the grain business every day of my life, leads me to believe that the present agitation against future trading is brought about more through ignorance of the system than by any other cause.

It does not seem possible to me that one could expect more or less of a green hand off of the farm, or even a man who has worked around an elevator for a good many years, to be suddenly taken in as manager of a cooperative company and expect him in a year or

two to fully understand and know all there is to learn about the grain business. Of course, some such men will learn rapidly and make good almost immediately, but the majority of them will not and it can not be expected. The fact that cooperative concerns during the war period, in a great many cases, made such handsome profits, was simply because cars were scarce most of the time, and not knowing anything about the hedging business they stood long of their grain in their elevators and made therefore a great deal of money.

With my concern and others who do strictly a "hedging" business, it was different during the war period, because we did not stand long of our grain, and while we actually did do a little better one or two war years, our profits showed only a nominal increase over ordinary years, and this was due more to the fact of our doing a larger volume of business than owing to the almost continual advancing grain markets.

I wish to call your attention to the fact that while very few country grain shippers of any description out of the great number doing business, use the future markets for hedging purposes themselves, they do get a great benefit from the hedging system when they are able to daily receive bids and sell their grain to terminal markets where the buyers use the hedging system. For instance, did not the farmers receive a direct benefit from future trading when we purchased from a country shipper at Deshler, Ohio, August 9, last, four cars of No. 3 white oats, to contain about 9,000 bushels in all, at 74 cents their track, and we protected ourselves by selling 5,000 bushels of September oats in Chicago at 73⅜ cents and 4,000 at 73⅛ cents? These oats were purchased from the Deshler people for shipment any time between August 9 and the month of September, and when these oats were actually shipped to us the market was about 14 cents a bushel lower than when we purchased them.

I want to read two letters:

TOLEDO, OHIO, *January 10, 1921.*

Hon. A. J. GRONNA,
Chairman Committee on Agriculture and Forestry,
United States Senate.

Hon. GILBERT N. HAUGEN,
Chairman Committee on Agriculture,
House of Representatives, Washington, D. C.

GENTLEMEN: Having been raised on a farm, and having always owned a farm, I have always been especially interested in farmers.

If limiting the sale of futures on the grain exchanges will help the farmers, I am for it. However, my fear is that such action would harm the farmer. If dealing in futures is prohibited, there would be nothing to stabilize the grain market and the market would be subject to very severe fluctuations. Grain would flow to market at seasonable periods in large quantities and to such an extent that nothing but a sharp decline in price would stop it. At other seasons, when the farmers are busy with their work on the farm, the flow of grain would stop. This would create uncertainty and fluctuations in price, which would make it impossible for millers and cash grain houses to obtain money in sufficient quantity to do business. Under the present method of financing cash grain houses, not only the grain men, but the banks are protected by the borrowers hedging their purchases. In my judgment this practice is a great safeguard, not only to the banks and grain men, but stabilizes the grain market and is beneficial to farmers.

Feeling sure that your committee will fully investigate before taking action, we remain,

Very truly, yours,

H. C. TRUNSDALL, *Vice President.*

JANUARY 10, 1921.

Hon. A. J. GRONNA,
Chairman Committee on Agriculture and Forestry,
United State Senate.

Hon. GILBERT N. HAUGEN,
Chairman Committee on Agriculture, House of Representatives,
Washington, D. C.

DEAR SIRS: I am taking the liberty of writing to you regarding the danger of undertaking to limit the selling of futures on our grain exchanges. For at least 50 years this bank has handled the accounts of the majority of the grain houses in this city, and feel that our experience with them qualifies us to make a few remarks on the above subject.

Practically all of our millers and cash grain houses are operating with only a reasonable capital of their own in proportion to the volume of their business. They conduct their business with a narrow margin of profit and cooperate in a way with the millers in supplying them with raw material, and absorbing whatever surplus is offered on the market. This surplus being warehoused and later exported and sold to local millers, the result being that the farmer is provided with a ready market for his product.

We have always loaned our grain men liberally on warehouse receipts as security, and have always insisted on the borrower hedging his purchases either through the sale of flour or the selling of futures on one of the grain exchanges. This being the only way that the bank can feel secure against severe fluctuations in values. If we had to cut down these loans to a basis of actual capital invested by the borrowers it would materially cut down the purchasing capacity of every one of them and curtail the market that the farmer would have for his product.

We sincerely trust that your committee will consider carefully the argument presented before taking action.

Yours, very truly,

W. C. C., *Vice President.*

The CHAIRMAN. Any questions?

Mr. VOIGT. You are a practical grain man?

Mr. DEVORE. I have never been in any other business from the time of leaving school.

Mr. VOIGT. What is the cost of hedging a thousand bushels of grain; I mean the cost of the operation?

Mr. DEVORE. Do you mean the commission?

Mr. VOIGT. Yes.

Mr. DEVORE. A quarter of a cent a bushel.

Mr. VOIGT. If a man sells a hedge and buys in that same hedge to close it out it costs him half a cent a bushel for the whole transaction, does it?

Mr. DEVORE. No, sir; a quarter of a cent a bushel for both transactions. Well, I will take that back as far as our concern is affected, because we have a membership on the Chicago Board of Trade, and we do the most of our trading through our board, and our commission is one-eighth. We are entitled to one-half the regular rate. An outsider pays one-quarter of a cent.

Mr. VOIGT. He makes a deposit in addition to that margin?

Mr. DEVORE. I suppose if he were not known they would demand a sufficient margin to protect the deal.

Mr. VOIGT. Does he have to pay any carrying charges of any kind?

Mr. DEVORE. Not on the future, if the future is not delivered. Then if the future is delivered, the carrying charges, such as elevator charges, and so forth, follow the grain.

Mr. VOIGT. So a man who wants to speculate in grain and buys 50,000 bushels is asked, or is he asked by the man he makes the trade through, whether he desires delivery of the grain?

Mr. DEVORE. Not that I know of. I am trying to do my business on a strictly business basis.

Mr. VOIGT. If you can not answer the question, then all right.

Mr. DEVORE. Give me that again?

Mr. VOIGT. When a man speculates in grain and buys a future for 50,000 bushels, is he asked at the time he makes the trade whether he wants the grain delivered or not?

Mr. DEVORE. Not that I know of. I would not think so. I would say no right straight out to that question.

Mr. VOIGT. Suppose when the time comes he does want delivery?

Mr. DEVORE. All he has to do is to sit tight and they will give it to him if he buys the grain.

Mr. VOIGT. Then is he charged for any carrying charges?

Mr. DEVORE. If he continues to carry it then I would say he has to pay the carrying charges.

Mr. VOIGT. Say he takes delivery on the 1st of May for the quantity he buys now, would he then have to pay any carrying charges?

Mr. DEVORE. I believe if it is sold out the same day of delivery he would not. If he wanted to actually take delivery out of the market, and ship it to some place, he might have some little carrying charges until the stuff is actually loaded into the car; yes, sir.

The CHAIRMAN. The committee thanks you, Mr. Devore.

Mr. DEVORE. And I thank you, gentlemen.

The CHAIRMAN. We will now hear the next gentleman.

Mr. BLACKFORD. I would like to be heard, Mr. Chairman.

The CHAIRMAN. Very well. Please give your name, place of residence, and state your business to the reporter.

STATEMENT OF MR. EUGENE BLACKFORD, GRAIN EXPORTER, BALTIMORE CHAMBER OF COMMERCE, BALTIMORE, MD.

Mr. BLACKFORD. My name is Eugene Blackford. I am a grain exporter, a member of the Baltimore Chamber of Commerce, at Baltimore, Md.

I think the best thing I can do is to tell you just exactly the way we operate our business and how the hedging part enters into it. Our primary business is to export grain. We send bids out into the country, buy the grain, accumulate it at Baltimore pending the time when we receive an order to export it. When we make purchases of grain in the country we sell the same option in the market, generally Chicago, some futures. We will assume that we bought 50,000 bushels of wheat, for which we paid $2 delivered at Baltimore. We would sell March wheat in Chicago at about $1.70, and then our wheat cost us 30 cents for the Chicago option. When that wheat comes in and we are ready to export it we are able to get a market for it, the market in Chicago may have gone down 10 cents, so our wheat cost us still 30 cents over at Chicago in March, or $1.90 at Baltimore. We add our profit to the $1.90 instead of to the $2.

If we had not hedged that wheat it would have been absolutely a pure speculation, and if the market had gone down 10 cents we would have lost that 10 cents. If we do not have the ability to hedge we would not be continually in the market. We would only buy wheat when we had an order, or when we felt we might get

an order, when we would send our bids out, and at a very much larger margin, instead of conducting the business for a very small commission. We would have to have a much larger commission. And we did get a much larger margin before the option market was opened in Chicago.

I think I am correct in saying that there is no commodity that is marketed from the producer to the consumer as cheaply as grain. I have known wheat to go all the way from Baltimore County to Liverpool at a commission of 1 cent a bushel. The producer had no expense except the freight to Baltimore.

At other times we will get an order for grain, generally large quantities, for shipment, we will say, in March. At that time of the year we can not go out and buy that grain from the producer, and the chances are we will purchase an option in Chicago or some other market. Then as we buy the cash wheat against our sale we sell out our option, always trying to get the relative difference. It is now always possible to get this relative difference, although as a general rule it works; and if it did not work the grain men would not continue to do it.

The trouble with the grain business is that if you do not have a hedge you must always find a seller and a buyer at the same time and coordinate them. When a man in the country buys grain he does not know whether he is going to market it at Chicago or at Baltimore or to some mill down South. In the meanwhile he puts a hedge on it to protect himself.

So far as the speculator is concerned, he may be a very vile person himself, but he fills a useful function. It does not make any difference to the farmer when he sells his wheat whether the gambler in the pit buys that wheat or the miller buys it. When he gets ready to sell wheat he will not always find an exporter or a miller to buy it. I think that is borne out by the wheat market.

Wheat in Baltimore in July, 1914, was about 86 cents a bushel, and the same wheat now sells for over $2. Some other commodities are below prewar prices, and there is even no market for them whatever.

If you restrict the Chicago Board of Trade or any other board of trade in their transactions it will be very difficult to trade. It was the smallness of the trade some months ago, the real business, I think, that made such fluctuations in the price. It might go up 10 cents a bushel because nobody wants to sell it at the time. No farmers were on the market, and no speculator was there to sell it to us, when we wanted to buy just then. It is the same way with the farmer; if he does not find a man to buy his wheat when he wants to sell the market breaks. It is the same way with the elevator man in the country.

So far as speculators go, I do not know who has the money, but the speculators, if you look them down the line, have not got the money. Where is Joe Leiter? And where are they all? Where are the snows of yesterday?

As far as I am personally concerned, I am sure that we could make more money out of our business without any option trading whatever, but we would make it out of the producer. I feel as confident of that as that I am of sitting here. We would all trade on

much larger margins. And at times I venture to say wheat would be unsalable. There would not be a miller who would not sit by and wait for some accumulation of wheat and for the price to drop. There would not be an exporter who would not sit by and wait.

Mr. HULINGS. That would only be at times. People would go on eating?

Mr. BLACKFORD. People would go on eating, but what the ultimate effect on the market would be I do not know. I understand it was tried in Germany at one time—but I do not like to make a statements on that score, as I am not positive about it—and I understand it was very disastrous.

Mr. VOIGT. Why did you say you would make more money to do away with futures?

Mr. BLACKFORD. Yes, sir; we did when they were done away with, made much more money.

Mr. VOIGT. Would all grain dealers make more money if we did away with futures?

Mr. BLACKFORD. That is about the way the grain business is done. We bid throughout the country for small amounts: If we want to buy around, say, half a million bushels, or 25,000 bushels, we go to a house that has a line of elevators and that has accumulated grain at, say, 29 for March at Chicago. He will sell it to us at about 30 over delivery at Baltimore. He sells it at a small margin over what it cost him. In the first place, it is almost inconceivable that anyone would take in a million bushels of grain without having some protection; it is human nature that if he did he would have to protect himself by a very large margin.

Mr. RIDDICK. Following out your exact practice, if you had an order for a very large amount of wheat and at a very large price—do you get such orders?

Mr. BLACKFORD. Yes, sir.

Mr. RIDDICK. Do you buy it at a sufficient price to protect yourself?

Mr. BLACKFORD. Yes, sir.

Mr. RIDDICK. And do you stop buying if you can not sell it at a higher price?

Mr. BLACKFORD. Yes, sir.

Mr. RIDDICK. Do you believe that not actual trading in wheat but speculative trading does affect the market sometimes?

Mr. BLACKFORD. Undoubtedly; yes.

Mr. RIDDICK. I think it is true that we buyers buy on a closer margin because of futures, but even so I am anxious to learn whether the wheat grower derives much benefit from it. Maybe he might sell on a wider margin (the wheat dealer), but there might be a bigger profit to the wheat grower?

Mr. BLACKFORD. I think the ultimate effect would be that when grain comes on to the market with greater rapidity, just after it is harvested, that it would have a fearful effect on the price, without somebody to take it up. The export business is very spasmodic. We will go a whole month without buying a peck of wheat, I mean without selling it, but we are buying it every day.

Mr. RIDDICK. The daily press has stated that exporters raise the price somewhat by making purchases, and then in order to hammer the price down they sell some of their purchases. Does that practice happen?

Mr. BLACKFORD. We have not done it.

Mr. RIDDICK. Would it have that effect?

Mr. BLACKFORD. I think if an exporter has purchased wheat he has no desire to break the market. A man owning a commodity does not want to depreciate it.

Mr. RIDDICK. He may be trying to fill an order at a certain price.

Mr. BLACKFORD. I do not think that is the practice. I never heard of it.

Mr. HULINGS. I saw a statement in the press which said that the British Government had a man here in this country who is buying what is wanted over there in the way of grain and other commodities, and not only for themselves but for some of their allies; and that by reason of being able to make all of their purchases through one channel, they are getting an advantage in the way of price. Have you seen anything of that kind?

Mr. BLACKFORD. The British Government buys through a commission in London. They had a commission over here, but that is gone. I do not know that they buy for anybody else.

Mr. HULINGS. The statement was made in the public press that they bought for Italy and France and so on?

Mr. BLACKFORD. We have sold direct to France through their Paris representative. And those Governments over there now trade through their own local grain people. We sell to the British through their local grain commission, and are reimbursed by their local grain men.

Mr. VOIGT. The point is that all grain that goes to England and France from the United States passes through this central agency in England, and that there is no competitive bidding from England for American grain at this time?

Mr. BLACKFORD. Wheat is the only grain that is what is called controlled. Corn, oats, and rye are left to the individual.

Mr. VOIGT. There is no competitive bidding at this time so far as wheat is concerned for England?

Mr. BLACKFORD. None.

Mr. RIDDICK. Does that affect the price?

Mr. BLACKFORD. Well, I do not know. When the British Government was buying actively they put the price up.

Mr. RIDDICK. If there were four agencies in England, who were buying for shipment to England, it would pull the price up, naturally?

Mr. BLACKFORD. That is a question that calls for an opinion that I would not like to express myself on. I know that when the British did buy they bought very liberally and enthusiastically and put the price up on themselves a good deal. I remember sending them a cable one night saying: If you would buy a little more moderately, if you would be a little more moderate in your purchases for a day or two, you would not put prices up so much. We were market short in a way, and I thought it might help.

Mr. RIDDICK. Was that telegram sent in the interest of the American wheat grower?

Mr. BLACKFORD. No; I am not a philanthropist or an altruist entirely. But I do believe in a fair price for wheat, and I do want our farmers to have the best market for their wheat. And I repeat

again that we would have to get more margin without this hedging privilege.

Mr. TINCHER. Then your testimony is that you are acting in the spirit of philanthrophy? I suppose that is the reason why you sent that telegram?

Mr. BLACKFORD. We all have some spirit of kindness in us.

Mr. RIDDICK. The American farmer, perhaps, would not thank you for it.

Mr. BLACKFORD. I am not telling it to the American farmer.

Mr. TINCHER. Well, you are telling it to a committee of the Congress that is supposed to try to get something for the American farmer, and these are public hearings.

Mr. RIDDICK. That telegram, it seems to me, would be directly injurious to the interests of the American farmer.

Mr. BLACKFORD. The fact was that they were buying all the wheat that anybody offered every night. If you offered a million bushels or half a million bushels you would sell every peck of it. You would have no option market. It had a bad effect on the market. Then they stopped buying in that way, and we had a collapse. They were buying before the new crop was raised and necessarily it had more effect.

Mr. VOIGT. Did you buy grain whether you had any orders for it or not?

Mr. BLACKFORD. Our object is to be continually in the market and have grain running to the market and have some stock, something to work with.

Mr. VOIGT. Do you sometimes accumulate large amounts of grain?

Mr. BLACKFORD. Not very large amounts, no. If we do not think there is any chance for export demand we do not buy any. But as a rule there is export demand, when wheat or corn moves, and we use our judgment about that.

Mr. VOIGT. When you get an inquiry from abroad you are asked to make a price?

Mr. BLACKFORD. We make a firm offer, for 100,000 bushels for March shipment, say. If the man accepts it we have to buy cash wheat or buy an option. If we have a market it may go up suddenly, and we buy an option as soon as we can. Or if we buy cash wheat we buy that. The ultimate object is to get cash wheat, and the sooner we get the cash wheat the better.

Mr. HULINGS. Then you sell out your option?

Mr. BLACKFORD. Yes, sir.

Mr. VOIGT. Your option always insures you against loss on your trade?

Mr. BLACKFORD. It is very good insurance—the best that can be obtained.

Mr. VOIGT. You sometimes lose, even when you hedge?

Mr. BLACKFORD. It is possible; yes.

Mr. VOIGT. That would be only possible if you could not buy a hedge at your price?

Mr. BLACKFORD. We run that risk, and we run the risk of advanced premiums or depreciations in premiums. Sometimes we buy 10 over and we hedge it. And it is not worth more than 9 over, or 5 over. You have to use your business judgment to prevent it. That is

what you use your business judgment for. Everybody gets touched up on something of that kind now and then. But it is small in the long run and doesn't hurt much.

The CHAIRMAN. Any other questions?

Mr. DICKINSON. How long does your average hedge run?

Mr. BLACKFORD. Well, the average hedge would not run over about two weeks.

Mr. DICKINSON. Not over two weeks?

Mr. BLACKFORD. But we have had them that ran for six months.

Mr. DICKINSON. That was when the congestion was such that you could not make any sales or shipments?

Mr. BLACKFORD. Yes; or the demand fell off or something like that, at a time when we have sold grain for future delivery.

Mr. DICKINSON. That is not your usual custom, is is?

Mr. BLACKFORD. If we should sell now for May shipment the chances are that the hedge would run for quite a while because we would not convert that hedge into cash. It is not desirable to get cash grain at the port long before the steamer, as charges eat its head off.

Mr. DICKINSON. How long a delivery do you usually get on foreign purchases, 60 days?

Mr. BLACKFORD. It is entirely a matter of how you sell it. We are selling corn now for shipment within a week, and it is very difficult to sell it for shipment next February.

Mr. DICKINSON. It is not necessary for you to hedge corn if you are going to ship it out within a week, is it?

Mr. BLACKFORD. You have to buy something. If you do not hedge you have to have 5 cents commission instead of 1, as we get now.

Mr. DICKINSON. You think the hedge is a form of insurance that really inures to the benefit of whom?

Mr. BLACKFORD. To the benefit of the man who raises the crops.

Mr. DICKINSON. You say there is no competitive bidding from England for wheat at the present time. Is that because the English Government is still buying the wheat in the name of the Government?

Mr. BLACKFORD. Yes; they have a commission called the Royal Commission.

Mr. DICKINSON. Has that been true in all peace time or for some time past?

Mr. BLACKFORD. It has been true for several years. It is a product of the war.

Mr. DICKINSON. Prior to the war, did you say?

Mr. BLACKFORD. No; it was the result of the war.

Mr. DICKINSON. What about corn; is it necessary for you to have some hedging privilege on corn the same as you do on wheat in those circumstances?

Mr. BLACKFORD. There is no difference.

Mr. DICKINSON. Why do you think it necessary in order to protect the producer of grain that we have a speculative feature of the market when we do not have it in other commodities that go into the food with which to feed the world?

Mr. BLACKFORD. Well, if you could look at some of the other commodities you could answer that for yourself.

Mr. DICKINSON. You answer it for me; I can not answer it.

Mr. BLACKFORD. Well, because wheat moves with a great deal of volume in the first place. And there is not always a buyer for it. And assuming that there is always a buyer, the buyer can not always find his buyer. He must have the same protection during that time. And he can only have that protection by hedging. If he has not got that protection he will protect himself by exacting a bigger margin for handling it.

Mr. DICKINSON. You think that is the whole excuse for the hedging system that has grown up in dealing in futures?

Mr. BLACKFORD. I think it is a system that has been evolved through the passage of time rather than something that has been suddenly developed, and by its machinery the grain products of the United States are marketed to better advantage.

Mr. DICKINSON. Will you tell me why it is necessary to maintain in Chicago a board of trade where they sell probably forty times as many futures as there are bushels of cash grain; why is the margin of speculation over cash so much greater?

Mr. BLACKFORD. The reason for that is that the world trades there and makes a stable market. If you had a line of elevators, and were to buy 150,000 bushels of wheat on your bids over night you would be very glad to know you can sell it the next morning at Chicago without upsetting the market. You have there a great market that sweeps in 150,000 bushels and does not know it has got it.

Mr. DICKINSON. Can not I sell that on a to-arrive basis and not invest a nickel in future hedging?

Mr. BLACKFORD. I do not think you could find a buyer. And that buyer, in turn, has to find his buyer.

Mr. DICKINSON. There is a good deal of wheat grown that goes into Chicago on a to-arrive basis, isn't there?

Mr. BLACKFORD. I can not speak for Chicago. We buy wheat at Baltimore, but we must have somewhere to export it or hedge it. We must know we can have a buyer for it.

Mr. DICKINSON. In other words, you want the producer to take all the risk of the market, and the hedging system is for the man after it leaves the producer and until it gets into the hands of the consumer?

Mr. BLACKFORD. Well, I do not know that you can interpret my remarks just exactly that way. I want a stable market for the bentfit of everybody, be he wheat raiser, seller, or buyer.

Mr. DICKINSON. Does not speculation in wheat cause rise and fall?

Mr. BLACKFORD. I think it does at times.

Mr. DICKINSON. And does not what they call the one-eighth and one-fourth speculator, who is down in that little saucer in the board of trade in Chicago, selling several million bushels one day and cashing out the next day, and taking his margin and putting it into his pocket and going home, have other than a stabilizing influence for you or for the farmer or for the consumer?

Mr. BLACKFORD. He makes a market. They are operating on both sides. They make a market, and if you want to buy grain you can buy, and if you want to sell grain you can sell. It is immaterial who sells it to you or who buys it from you.

Mr. DICKINSON. Then you think there is an absolute necessity of this country maintaining a great mass of speculators that never

take a bushel, never deliver a bushel, and have them operate on this board of trade simply because it gives what you call a ready place to sell and a ready place to buy?

Mr. BLACKFORD. I think they hold a market and make a market. I am just giving you my opinion. I think they take the grain when the grain comes, and they perform a function that somebody must perform or the price of grain would become greatly depressed.

Mr. DICKINSON. Don't you think if we had congregating together the men of the world who want to buy wheat and let you men who represent persons who want to sell abroad, and the miller and the consumer and any other line, and let the men who want to sell wheat, meet at that place, and let it be known that there is a general place where everybody who has wheat to sell can sell it, and everybody who wanted to buy wheat could buy it, that they would carry out practically the same system and eliminate the fellow in there speculating on wheat and betting whether wheat will go up or down?

Mr. BLACKFORD. If anybody can evolve a better system I will take off my hat to them.

Mr. DICKINSON. You are for that?

Mr. BLACKFORD. Yes, sir; I am for that. I do not know whether it is possible to get the world in some big hall in the United States; whether it is wise for the Bolshevik in Russia to have the privilege of coming into the United States and trading or not.

Mr. MCLAUGHLIN of Michigan. I did not catch your last remark?

Mr. BLACKFORD. I do not know whether it is practicable to have such a world market house in the United States, or such a house anywhere.

Mr. DICKINSON. What is your judgment as to whether or not the speculation, what we call the bidding on futures, causes fluctuation up and sometimes fluctuation down, or what is called bulling and bearing the market? I mean, whether it is the thing that causes that?

Mr. BLACKFORD. I think at times it depresses the market, and at times it bulls it. But in the main it stabilizes it.

Mr. DICKINSON. If the wheat dealer could not hedge he might lose a margin on a certain purchase of wheat, and he might gain a greater margin on another purchase of wheat, but on the whole his profit would be about the same as it is now, would it not?

Mr. BLACKFORD. Oh, I think it would. I think we would see that it is.

Mr. DICKINSON. You think ultimately the law of supply and demand really controls, and that the average price is in line with market values?

Mr. BLACKFORD. What I wished to impress was that I thought the dealer in those circumstances would exact from the man from whom he bought grain a very much larger margin so that he could stand some of the losses and might enjoy some of the profits. As far as my own business is concerned, I feel confident I would make more money if I had a line of elevators holding a million bushels of grain, stretching out through Kansas and other States, but I do not know how I would handle the matter, if I could handle it at all.

Mr. DICKINSON. What about the men who actually operate out through there, who own wheat, could they gain or lose by an eradication of the present system?

Mr. BLACKFORD. I think they would lose.

Mr. DICKINSON. You know that it is the line elevators that use hedging mostly?

Mr. BLACKFORD. I do not know but presume so.

Mr. DICKINSON. And that the individual and cooperative elevators do not use it as much as the line elevators?

Mr. BLACKFORD. I did not know that. You see I am in Baltimore.

Mr. DICKINSON. That is all.

The CHAIRMAN. That is all, Mr. Blackford. We thank you.

Mr. BLACKFORD. And I thank you gentlemen.

The CHAIRMAN. We will now hear the next witness, Mr. Crosby.

STATEMENT OF MR. F. M. CROSBY, REPRESENTING THE WASHBURN-CROSBY CO., MINNEAPOLIS.

Mr. CROSBY. Our position can be stated briefly. The millers of the United States grind approximately 600,000,000 bushels of wheat annually.

The miller is the ultimate buyer of 80 per cent of the farmers' wheat. [See Exhibit A attached.]

We submit, first, that the elimination of price interest with such a large buying element is most desirable; second, that such a large purchasing power should be utilized to stabilize wheat prices.

The miller is a manufacturer of flour. His returns should arise from the manufacture and distribution of wheat products—not from the purchase and sale of the raw material.

Purchases of wheat followed by immediate sales of flour to an equivalent or conversely offer no problem. The price of one is based directly on the price of the other. This is the ideal condition.

The real problem then arises in the handling by the millers of wheat bought in excess of actual flour sales or conversely in flour sales made in excess of immediate wheat supplies.

There are two questions involved; first, why does the miller buy wheat in excess of flour sales or conversely; and, second, how can this be done without permitting his great purchasing power to interfere with the free reflection of actual values.

The millers buy wheat in excess of flour sales or conversely for the following reasons:

First. Production of wheat is seasonal.

Second. Flour demand is periodic.

Third. The period of heaviest wheat offerings and heaviest flour demand do not necessarily occur at the same time. [See Exhibit B attached.]

Fourth. The areas of greatest consumption both domestic and export are east of the great fields of wheat production.

Fifth. Seventy per cent of all the flour produced in the United States is in direct proximity to the fields of wheat production.

Sixth. The movement of grain and grain products is from west to east.

Seventh. The miller must buy wheat when offered, otherwise it flows by the mill door and passes to export.

Eighth. The miller must, regardless of immediate flour sales, maintain at or back of milling centers sufficient supplies to meet future flour demand.

Ninth. He must sell flour when the demand exists regardless of his ability to buy immediate wheat supplies.

Tenth. The miller must maintain a flow of wheat to the mill to insure operation.and a flow of flour to the consuming points to meet occurring demand; otherwise continuity of operation would be impossible and inadequate flour supplies would result from time to time.

How can the miller buy wheat in excess of his flour sales or sell flour in excess of immediate wheat supplies without interfering with the free reflection of actual values?

We maintain that the miller who utilizes the present marketing facilities and sells a future wheat contract against his wheat purchases or conversely purchases a future contract against flour sales, is not interested in the price levels except that they should so far as possible be the same in both cases. It matters little if he contracts at $1, $2, or $3 per bushel, provided his sales of wheat or flour reflect similar prices.

It is clear, therefore, that he is not interested in enhancing or depressing prices and that the volume of his transactions flow through the markets at current prices without interference. His operations are reduced so far as possible to actual manufacturing only.

On the other hand, it is apparent that the miller who does not use the contract facilities and whose position is therefore directly affected by the rise or fall of prices, must necessarily possess a very decided price interest. The volume of his transactions must necessarily become a factor and an important one in influencing price as his position demands that he should buy at a lowest and sell at the highest levels.

Under our present system, in future contracts, the margin as between producer and consumer is not only extremely narrow, but lower than in any other country. This is due largely to the features of safety embodied in the present grain machinery and extended to those who undertake the marketing of our great wheat crop. These features operating successfully over a considerable period of time have inspired financial confidence to an extent that makes the advances necessary to move and market the crop readily available.

True it may be said that the margins as between producer and consumer are just as narrow with those elements who do not use the future contract facilities.

We contend, however, that the existence and use of these market facilities by a considerable percentage, exercise the control that keeps these narrow margins and provides the necessary finances on most advantageous terms, and that its elimination would, first, create added risks, second, increase margins, and third, would drive those elements who do not now possess price interest into a field of operation where that feature becomes an all important factor.

Consciously or unconsciously, directly or indirectly, the position of the miller who does not use the contract facilities, is influenced and controlled by it, and the stabilizing influences of its operation permit

the work out of his present-day policies, which would be far different without its restraining influence.

If as we contend, the use of future contracts by the miller is of direct benefit to both producer and consumer in eliminating price interest and influence with such a large buying element, it should be continued.

What then are the essential features of marketing machinery that permit hedging or future contracts?

To say that it is a legitimate operation and should be sanctioned or approved does not in itself give assurance that it is possible. There mut of necessity be that freedom of action that permits selling and purchasing elements of sufficient volume to absorb offers of either; otherwise a narrow market results with wide fluctuations attending each sale or purchase.

We are not here to defend any faults that may have from time to time crept into the marketing machinery. For the benefit of all interests these should be eliminated. But on the other hand, it is both unfair and destructive to condemn the good features that are inherent in the structure because of objectionable features that should be controlled.

It is unfortunate that in the sweeping criticism of to-day many perfectly legitmiate transactions are included as pure speculation. Such condemnation confuses these with manipulation, which, properly interpreted, is quite different in effect or purpose.

Manipulation is the dealing in huge quantities not to cover actual transactions, but to produce unnatural and undue influences either of depression or advance, thus creating a situation which interferes with the free play of prices and introduces into legitimate operations elements of danger, uncertainty, and hazard.

EXHIBIT A.

STATEMENT IN ROUND FIGURES.

		Bushels.
United States production of wheat in 1917, 1918, and 1919		830,000,000
United States seed requirements	90,000,000	
Annually carry over (low)	40,000,000	
		130,000,000
Available for domestic consumption and export		700,000,000

United States flour mills grind approximately 600,000,000 bushels, or 80 per cent of total wheat available.

EXHIBIT B.—*Wheat stocks in bushels.*

	1 Wheat purchases.	2 Future contracts.	3 Total of columns 1 and 2.	4 Surplus.
Nov. 29, 1913	7,336,816	1,004,000 bought	8,340,816	5,126 short.
Nov. 30, 1914	7,481,964	777,000 sold	6,704,964	146,556 long.
Nov. 30, 1915	7,205,196	5,396,000 bought	12,601,196	29,619 short.
Nov. 30, 1916	8,574,369	3,282,000 sold	5,292,369	13,915 short.
Nov. 30, 1920	5,064,484	1,196,000 bought	6,260,484	18,928 short.

Column 1 is a statement of what purchases in all positions.
Column 2 is a statement of future contracts, sometimes referred to as options, either bought or sold.
Column 3 is the net result of columns 1 and 2.
Column 4 is the amount of wheat, short or long, after deducting flour sales from the total wheat stocks (col. 3) plus flour stocks.

DAILY SURPLUS ACCOUNT, 1920.

		Bushels.
Aug. 1.	Long	1,007,696
3.	Long	872,885
4.	Long	645,289
5.	Long	368,263
6.	Long	360,751
7.	Long	398,212
9.	Long	350,391
10.	Long	266,044
11.	Long	157,421
12.	Long	224,114
13.	Long	186,466
14.	Long	282,469
16.	Long	272,796
17.	Long	200,150
18.	Long	136,189
19.	Long	127,713
20.	Long	96,016
21.	Long	171,620
23.	Long	167,791
24.	Long	209,729
25.	Short	44,074
26.	Short	155,280
27.	Short	143,944
28.	Short	33,294
30.	Long	92,334
31.	Long	44,369
Sept. 1.	Long	89,310
2.	Long	69,419
3.	Short	41,157
4.	Long	76,441
7.	Long	84,379
8.	Long	72,704
9.	Long	20,849
10.	Long	17,147
11.	Long	46,059
13.	Short	26,047
14.	Short	123,890
15.	Long	55,338
16.	Long	325,201
17.	Long	300,536
18.	Long	224,655
20.	Long	127,483
21.	Long	279,779
22.	Long	110,375
23.	Short	111,832
24.	Short	22,698
25.	Long	306,669
27.	Long	278,067
28.	Long	209,693
29.	Long	111,553
30.	Long	256,763
Oct. 1.	Long	172,971
2.	Short	198,404
4.	Short	84,778
5.	Long	6,893
6.	Short	103,737
7.	Short	357,869
8.	Short	16,792
9.	Long	317,293
11.	Long	212,688
Oct. 12.	Long	64,412
13.	Long	21,286
14.	Short	147,488
15.	Long	223,389
16.	Long	42,742
18.	Long	269,383
19.	Long	264,543
20.	Long	90,065
21.	Long	146,797
22.	Long	167,179
23.	Long	8,891
25.	Long	2,993
26.	Short	25,144
27.	Short	196,622
28.	Long	89,725
29.	Long	121,542
30.	Long	222,590
Nov. 1.	Long	158,605
2.	Long	151,343
3.	Long	68,156
4.	Long	105,307
5.	Long	149,352
6.	Long	40,872
8.	Long	130,291
9.	Long	151,199
10.	Long	181,858
11.	Long	137,317
12.	Long	152,011
13.	Long	142,452
15.	Long	154,545
16.	Long	166,726
17.	Long	167,591
18.	Long	159,422
19.	Long	215,775
20.	Long	121,213
22.	Long	121,395
23.	Short	76,535
24.	Short	101,389
26.	Short	90,878
27.	Short	154,820
29.	Short	76,089
30.	Short	102,297
Dec. 1.	Short	18,928
2.	Short	20,261
3.	Short	103,184
4.	Short	52,058
6.	Short	108,624
7.	Long	35,261
8.	Long	80,631
9.	Long	200,115
10.	Short	20,433
11.	Short	40,244
13.	Short	57,534
14.	Short	96,833
15.	Short	111,630
16.	Short	4,126
17.	Long	3,661
18.	Short	16,619
20.	Long	6,545
21.	Short	39,779

		Bushels.			Bushels.
Dec. 22.	Long	8,579	Dec. 28.	Long	44,690
23.	Long	23,663	29.	Long	21,794
24.	Short	79,019	30.	Short	36,879
27.	Long	63,947	31.	Long	9,658

The CHAIRMAN. Thank you, Mr. Crosby; we will hear you further in the morning. The committee will now adjourn.

(Thereupon, at 5 o'clock p. m., the committee adjourned until tomorrow, Wednesday, January 12, 1921, at 10 o'clock a. m.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Wednesday, January 12, 1921.

The committee met at 10 o'clock a. m. pursuant to adjournment on yesterday, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order.

STATEMENT OF MR. F. M. CROSBY—Resumed.

The CHAIRMAN. I understand you are here, in response to a request of the committee, to answer questions to be asked this morning?

Mr. CROSBY. Yes, sir.

The CHAIRMAN. Are there any questions any member of the committee wishes to ask Mr. Crosby this morning?

Mr. DICKINSON. I would like to ask a few questions?

The CHAIRMAN. Very well. You may proceed, Mr. Dickinson.

Mr. DICKINSON. If I understand your statement correctly, Mr. Crosby, you use the futures for the purpose of protecting yourself on flour contracts, whereby you take a contract for a certain amount of flour which requires a given amount of wheat. Then you buy futures against that wheat, or for that wheat, in order to preserve the price or know what you have to pay for the wheat when you put it into flour; is that true?

Mr. CROSBY. You must consider cash purchases of wheat there, too. We buy future contracts in cases of cash wheat in equivalent amounts of flour. If at all times cash wheat and flour sales were in balance we would not use futures.

Mr. DICKINSON. If they would balance?

Mr. CROSBY. Yes; if the amount of flour we sell and the amount of wheat we buy were approximately equal we would not use futures.

Mr. DICKINSON. Your requirements are, approximately, 50,000,000 bushels of wheat per month?

Mr. CROSBY. Per year. We would use more than the annual wheat crop at that rate.

Mr. DICKINSON. Your first statement that you presented says here that you manufacture into flour—oh, no; that refers to the millers of the United States as using that?

Mr. CROSBY. Yes.

Mr. DICKINSON. I was thinking that was your own statement.

Mr. CROSBY. Oh, no.

Mr. DICKINSON. Does the purchase of futures have anything to do with determining the price of flour in the future?

Mr. CROSBY. It has everything to do with it.

Mr. DICKINSON. What determines the price of futures in the grain business?

Mr. CROSBY. Whichever way the balance of trade may be, whether there are more buyers than sellers, or more offerings of grain on the market, or something of that kind.

Mr. DICKINSON. Who controls the conditions that have to do with the fixing of the price of futures or the representations as to what those conditions are?

Mr. CROSBY. I take it that those values are established by world values in normal times.

Mr. DICKINSON. There is a certain propaganda that is sent out—propaganda of certain kinds or "information" probably would be a better word, by various sources, touching the principal supply of wheat and the future supply. Does not that in a large measure determine the price of futures?

Mr. CROSBY. Do you mean the actual Government information of shipments and receipts of wheat?

Mr. DICKINSON. Yes; and board of trade information that is not governmental.

Mr. CROSBY. I do not think that latter information is very much of a factor. At least I will say this, that we never pay much attention to it. May I cite an instance of a possibility in order to answer that question?

Mr. DICKINSON. Certainly.

Mr. CROSBY. In the prewar days I remember that our vice president, who had charge of foreign sales, in several instances or several times, cited the world value of flour as we saw it in our own office. For instance, on certain days we would have offers by cable on flour from England, from Norway, from Holland, from Denmark, from South Africa, and from South America. After all of those various bids on our flour were reduced to bushel-wheat cost—taking in the various sizes of the different packages of flour, freights, and exchanges—they checked within less than 1 cent a bushel to us; that is, I mean that the world value was that close. That, I think, has a bearing on your question.

Mr. DICKINSON. Is the future price of wheat reflected in the cash price of wheat?

Mr. CROSBY. May I ask if, by future price, you mean May wheat to-day or cash wheat to-day or December wheat?

Mr. DICKINSON. Yes.

Mr. CROSBY. Of course, we have been having very abnormal times since July. We had the most enormous premiums through July, through September, and even into December, and cash wheat has been at enormous premiums over future contracts. Just what brings that about I do not know, and as to wheat there are various arguments. Of course, we do not like to see the premiums. As millers, when we sell flour on the basis of future contracts, the difficulty for us is to estimate whether that premium is 5 cents, for if it goes to 15 cents the additional 10 cents would be our loss. If the premium is established and it is going to run about 10, 12 or 15 cents over, then we can negotiate it. Even in Canada, with their big flow in wheat, the last week in December their premiums were 10 cents over the December basis, and those who had the December contract pur-

chased actually paid 10 cents premium on account of the necessity for wheat at that particular time; probably on account of boat contracts.

Mr. DICKINSON. How long do you carry future hedge?

Mr. CROSBY. May I go back to normal times, because this year there has been such a distressing condition?

Mr. DICKINSON. That is what we want.

Mr. CROSBY. Frequently in normal times we will sell flour in September, October, and November for four or five months' delivery, and even six months, and on even into May delivery. Those contracts therefore would go through to the completion of the contract.

Mr. DICKINSON. The great percentage of your business, however, would come within a 30 or 60 day basis, wouldn't it?

Mr. CROSBY. Oh, no; not within 30 days.

Mr. DICKINSON. What about a 60-day basis?

Mr. CROSBY. I doubt if the flow of wheat from the terminals through the mills is completed in that period. It is largely due probably to the block in transportation, which we hope is now corrected. That depends enormously upon transportation.

Mr. DICKINSON. You purchase the most of your wheat through warehousemen, do you, or through elevators?

Mr. CROSBY. We purchase it on the various exchanges from the commission men, and from elevators and terminal men, irrespective.

Mr. DICKINSON. You operate no elevators yourself?

Mr. CROSBY. We operate none as a milling company.

Mr. DICKINSON. Provided dealing in futures were abandoned for a longer period than 30 or 60 days, state what your judgment is as to whether or not warehouse conditions and banking conditions could adapt themselves to the new method and to such a new mode of machinery and which would take care of the very purpose which is taken care of at the present time?

Mr. CROSBY. That question means that the cash wheat purchased or flour sales made could not exceed a 60-day period?

Mr. DICKINSON. Yes.

Mr. CROSBY. As far as our flour sales are concerned we probably would welcome a 60-day period if you could enforce it. But the enforcement of it would be an extremely difficult matter.

Mr. MCLAUGHLIN of Michigan. What do you mean by enforcing it?

Mr. CROSBY. Preventing buyers or millers from selling at longer periods, or policing of the trades.

Mr. MCLAUGHLIN of Michigan. You do not mean enforcing regulations on the boards of trade?

Mr. CROSBY. Oh, no; not as between ourselves and those with whom we trade. But the law would say that we could not sell flour in advance of 60 days, and then we could sell flour for 60 days and rewrite the contract.

Mr. MCLAUGHLIN of Michigan. You presume that if laws should be enacted forbidding future trading on the boards of trade it would be necessary for another law to be enacted regulating the actual business of milling and of making flour and selling it?

Mr. CROSBY. They should go together. They are inseparable in our minds.

Mr. MCLAUGHLIN of Michigan. Is that what your answer means? Is that properly interpreting what you said?

Mr. CROSBY. I think so.

Mr. MCLAUGHLIN of Michigan. Excuse me for the interruption, Mr. Dickinson, but I thought that was a good place to put in that thought.

Mr. DICKINSON. Certainly.

Mr. CROSBY. Now, may I continue on that line?

Mr. DICKINSON. Yes.

Mr. CROSBY. That is, as far as the flour end of the proposition goes; if you could restrict all the flour purchased in this country to periods of 60 days, I think, as millers, we would be delighted. It would take away from us a good deal of risk. But the buying public does not want to buy that way. Competition requires us to sell over longer periods. As to wheat, I am not the one to answer that, because I am not as familiar with terminal conditions. But I do know that if sales of wheat were restricted to 60 days you would have an enormous quantity come in at certain times, and you would be renewing your contracts, because every 60 days everybody would have to make a turnover.

Mr. DICKINSON. Wouldn't that prevent fluctuation on the finished product—keep it more nearly in line with the price of wheat that you put into the finished product?

Mr. CROSBY. It does now.

Mr. DICKINSON. Do you contend that where you have a future contract that extends over a period of 90 days or 6 months, that your price of flour fluctuates with the price of the wheat.

Mr. CROSBY. As to any wheat that we have, with futures sold, our price of flour fluctuates as the future fluctuates. But I wonder if I properly gathered your question there?

Mr. DICKINSON. For instance, when you sell flour for future delivery don't you sell it at a fixed price, or at a price determined by the market?

Mr. CROSBY. At an established price, and that trade is completed. If we sell flour for future delivery and cover it over by cash wheat or future contracts, that trade is completed. One belongs to the other, and we are through with that. Now, if we buy wheat in excess of flour sales, and sell a future contract, then when that wheat comes out to the consuming public it comes at the prices of the future on the day that they buy it.

Mr. DICKINSON. The most of your futures are held on the Minneapolis exchange, or are they on the Chicago exchange?

Mr. CROSBY. Well, they will divide, sir. The bulk of it, or more of it is in Minneapolis than in Chicago, depending largely whether it is Buffalo wheat or Minneapolis wheat. We try to keep our future contracts somewhat in relation to where the wheat is placed.

Mr. DICKINSON. In connection with your business, tell me what protection the speculator, who is a manipulator of prices from day to day, has in the business, and why should we continue him in the business for your protection?

Mr. CROSBY. May I draw the line between a manipulator and a speculator?

Mr. DICKINSON. Yes.

Mr. CROSBY. Let me say this first, that I have no knowledge or means of securing knowledge of the percentage of trades which are

made with speculators. But it seems to us in our business that a sufficient amount of speculation is necessary in order to take up the surplus offerings of the producer, or purchases of the consumer. A manipulator, however, is one who suddenly throws upon the market a huge volume of some commodity, and it is an injury to any one, a hazard to all of us, in the business.

Mr. TINCHER. That happens, does it not?

Mr. CROSBY. Well, I have no knowledge of it.

Mr. TINCHER. Do you mean to say that you have no knowledge of the throwing of large volumes of commodities on the market at times?

Mr. CROSBY. I can not tell one trade from the other. I do not see the trades. We handle no future trades ourselves. Knowledge of those things is very difficult to obtain.

Mr. TINCHER. You suspect it as occurring sometimes?

Mr. CROSBY. Oh, yes, sir.

Mr. DICKINSON. Then under our present marketing system it is possible for a manipulator with large reserve-buying power to either depress or advance the price, in your judgment?

Mr. CROSBY. Oh, I think so.

Mr. DICKINSON. In your judgment would it be a good regulation on a board of trade to limit the amount of purchases made by any one individual or any one concern for a given period of time?

Mr. CROSBY. First, I think, I would want to know what percentage such tradings would be. I do not know what percentage that is. Whether that is necessary for all future contracts, I could not say. I know it is a risk in our business, but whether it could be eliminated to advantage would depend upon what the relationship is to future trading.

Mr. DICKINSON. If the board of trade would cease buying, the Washburn-Crosby mills would try to weather the storm, wouldn't they?

Mr. CROSBY. Yes, sir; we would try to do so, but I do want to say, although we are now, and have been for many years, dependent on future contracts in the operation of our business, it does not mean that we could not operate without these future contracts. It would be necessary to revolutionize our whole method of doing business and we would become intensely interested in the price we paid for wheat when these amounts were in excess of flour sales and there would be a constant effort upon our part, consciously or unconsciously, to depress the purchase price of wheat. As all millers would have the same problems, we believe this fear of purchasing wheat would be common to all and therefore the producer would be seriously punished whenever offerings were in excess of flour demand. The reverse of this would be true in selling flour and we would always have the fear of not being able to secure wheat for the flour sold and consequently the price to the consumer would be higher. We sincerely believe that a mill, operated within conservative limits, would make more money if trading in futures were abolished. The hazard of the business would be exceedingly great and our present profits as millers would be outshadowed by the possible profits due to the merchandizing of grain. The word "option" in trading has been abused and we wish to state that the word "option" does not exist for us. Frequently with us these

future contracts ripen into deliveries and we always have to have in the bank during the month of delivery sufficient funds to meet the payment of any deliveries made to us. We have no option. The only option existing is that of the seller in that he may select one of the various grades and also the day of delivery during the month of the future contract.

Mr. DICKINSON (interposing). In your judgment is it necessary to continue the vast volume of speculation by men who produce nothing and never deliver anything, but who simply are on the boards of trade for the manipulation of the prices of commodities and the margin to be gained thereby; do you think it necessary for that practice to be continued in this business for the protection of the man who is legitimately buying produce and grinding it into flour?

Mr. CROSBY. I think we are very largely dependent on at least two types of traders, speculative if you wish to call it so: (1) The spreader, or the man who buys in one market and sells in the other. He is not interested in any wide fluctuations, but in holding these various markets on a parity with the freight or the premium on the wheat. Those men perform a real service. They take up the over-offerings of producers in our country, whether on the market in Chicago or elsewhere. That man is a very valuable man. I know because our trade in buying futures is benefited by it. (2) Then there is the man in the pit who trades for himself, the speculator. There are various types of that form of buying. Many of those men are neither long nor short at the end of the day. They even themselves to the operations of the day. That man is of value, because it is just in the trading of that day that he is interested, taking up the slack, so to speak, between buyer and seller.

Mr. DICKINSON. He never expects to deliver anything, does he?

Mr. CROSBY. I do not think he is either long nor short at the end of the day.

Mr. DICKINSON. He closes out his transactions either at a profit or at a loss during the day?

Mr. CROSBY. At the end of the trading day.

Mr. DICKINSON. Is he called the cushion?

Mr. CROSBY. You might call him that, but that is a new term to me.

Mr. DICKINSON. I have heard that term applied to such a man.

Mr. PURNELL. The statement has been made before the committee a number of times that the man who deals in a purely speculative capacity, who has no product to sell and never anticipates actual delivery of any product, by and through his speculation tends to stabilize the market; is that your contention?

Mr. CROSBY. Yes, sir.

Mr. PURNELL. That he is really a necessary part of this whole machinery to stabilize the market.

Mr. CROSBY. That would be my judgment.

Mr. DICKINSON. That speculator is interested only in the fluctuations, isn't he? Because if there is no rise in price or no depression in price he can not win anything; isn't that true?

Mr. CROSBY. Certainly.

Mr. DICKINSON. Then you say the man who is interested in a fluctuating market has a stabilizing influence on the market?

Mr. CROSBY. Yes.

Mr. DICKINSON. Let us get that a little clearer. The speculator is interested in fluctuations, isn't he?

Mr. CROSBY. Yes, sir.

Mr. DICKINSON. And it is in the margin that he is interested?

Mr. CROSBY. Yes, sir.

Mr. DICKINSON. Either the rise or the fall in the market?

Mr. CROSBY. Yes, sir.

Mr. DICKINSON. And you contend, then, that the man who is interested in a fluctuating market is the man who has a tendency to stabilize the market?

Mr. CROSBY. Certainly, because he is willing to stabilize the market within a half a cent or quarter of a cent. Otherwise your fluctuations might be 5 cents, 10 cents, or 15 cents a bushel.

Mr. DICKINSON. Why that conclusion?

Mr. CROSBY. I have known men in the pit who told me, after periods, and one particular man, that he traded in 1,000,000 bushels of wheat one day, in small amounts, and that he was either $1 out or $1 ahead, and I have forgotten which. That indicated that he was going in and out at very small profits. We know that those men in the pit—or I say I know, and I do not know but they told me; and I do not see their trades or their books, but I am led to believe, after watching them for years, that they are glad to get off with a quarter of a cent or an eighth of a cent a bushel on trades. That is the reason I come to the conclusion that those men do take their profits on narrow margins. And I know if we come into the pit to buy wheat for future contracts, that frequently an order to buy 5,000 bushels or 10,000 bushels will mean that the market will change only a cent or a cent and a half. That is the reason why I say without those men to take up the slack I think the fluctuations would be very wide.

Mr. DICKINSON. Do you have future sale of flour on the board of trade?

Mr. CROSBY. No, sir.

Mr. DICKINSON. Can you give any particular reason why we should have a future sale of the farmers' produce and not of the miller's product?

Mr. CROSBY. Well, if you could regulate the flour trade on a future exchange, and if the rules of the exchange were similar, and all members had bonds up, I think we would welcome it, would be delighted to have it, and it would add to the protection and security of the flour trade. Does that answer your question?

Mr. DICKINSON. Yes. But what about the man who goes in and manipulates? Do you think you would welcome him into the flour trade?

Mr. CROSBY. If he were a flour buyer we would be awfully glad to have him at the present time.

Mr. DICKINSON. Suppose he is a flour seller?

Mr. CROSBY. He would not be very successful these days. But I would take a chance with him.

Mr. DICKINSON. Then, it is my understanding that it is your contention that future trading is a benefit to all lines or commodities?

Mr. CROSBY. Where the volume is very large, and where the offerings either by the producer or the demands of the consumer are very large in quantity; yes.

Mr. DICKINSON. Why isn't it reasonable to suppose with the demand for wheat for purchase right here at home, and when 90 per cent of it is consumed here at home, the buyer and seller can meet at an exchange, or wherever the trades may be consummated, and that the supply can be adjusted to the demand just the same as is done in your flour, and without maintaining the vast army of speculators who, in the grain trade, come in between producer and consumer?

Mr. CROSBY. Would you pass a law to require the flour buyer or the wheat seller to buy a certain percentage of their demands every day?

Mr. DICKINSON. No; but I am converted to this opinion, that if wheat was neither bought nor milled to-day it will keep over until to-morrow, and that the demand of consumers for wheat in the market is gradual and steady; and I can see no reason why it is necessary to have so much machinery between the man who produces the wheat and the man who mills the wheat in order to have a steady supply of our product run into the mills for consumption.

Mr. CROSBY. But sales of flour do not run evenly; they fluctuate greatly.

Mr. DICKINSON. But the consumption of wheat in your mill does run evenly, doesn't it?

Mr. CROSBY. No; there is a great fluctuation there.

Mr. DICKINSON. How much?

Mr. CROSBY. Oh, about 40 per cent, easily, and more than that at times. I doubt if we are running at 60 per cent of our capacity to-day; it is less than 60 per cent.

Mr. DICKINSON. But you have a certain demand that you can estimate in advance, can't you?

Mr. CROSBY. No, sir; not within several months. It is bound to come within the 12-month period, I grant you that.

Mr. DICKINSON. How do you determine on the 1st day of February at what capacity you are going to run your mill for the month of February?

Mr. CROSBY. The month of February?

Mr. DICKINSON. Yes.

Mr. CROSBY. Our capacity goes by the 24 hours.

Mr. DICKINSON. How do you determine how you are going to run on any given day?

Mr. CROSBY. To-day by the orders in hand; and orders received at noon might run into to-morrow. Frequently at 5 o'clock at night we may have to shut the mill down, or we may run it by orders that we receive afterwards. I will say that it is a very sensitive machine.

Mr. DICKINSON. Do you ever find a time when you can not go into the market at Minneapolis and get wheat for a 30-day run?

Mr. CROSBY. Within how long a period should I buy that?

Mr. DICKINSON. Suppose we say 30 days in advance of when you want to begin on the run.

Mr. CROSBY. Why, you very seldom see a period when you can buy a 30-day supply. A 30-day supply is a large supply of wheat for us.

Mr. DICKINSON. The storage capacity of Minneapolis is large, isn't it?

Mr. CROSBY. It is, in general, taking the whole of the terminals.

Mr. DICKINSON. Then you have out of there an extensive line of elevators, clear out into North Dakota?

Mr. CROSBY. That is true.

Mr. DICKINSON. That service is all at the command of the man who wants to buy wheat, isn't it?

Mr. CROSBY. No, sir; transportation may prevent your moving in of that wheat from the terminals to your mill, perhaps. The only wheat we can figure on for a run is our own terminal and wheat back in the country as it flows forward. Of course we can, over a period of several months, move considerable grain, and get it out of the terminals, but it is not a very rapid movement, and it is not flexible.

Mr. DICKINSON. What experience did you have in hedging during the time that hedging was not permitted—in 1915, 1916, and 1917?

Mr. CROSBY. On the Government basis?

Mr. DICKINSON. Yes.

Mr. CROSBY. That was entirely satisfactory from the standpoint of our own safety in wheat. We had a Government price that we could unload at.

Mr. DICKINSON. According to the statistics which are here it is my understanding that you have storage capacity in Minneapolis of about 55,000,000 bushels of wheat?

Mr. CROSBY. That sounds awfully large, sir.

Mr. DICKINSON. Well, this is a report of the Federal Trade Commission, which has been filed, volume 2, page 28, in which they set forth the storage capacity of the terminal elevators and the storage capacity in the principal cities. That includes, of course, all grain. Your storage capacity is almost entirely wheat in Minneapolis, isn't it?

Mr. CROSBY. The same storage capacity will take care of either one. You can put barley or oats or coarse grain in an elevator.

Mr. DICKINSON. There are not many oats stored, are there?

Mr. CROSBY. A very large quantity, I think you will find from the records, for the year throughout; in fact I think you will find that the coarse grains are in excess of the wheat stored in elevators. I think that can better be answered by terminal men in Minneapolis, who have the facts and know.

Mr. DICKINSON. You spoke in your statement, I believe, of some practices under the present marketing system that you thought were detrimental, and one of those was manipulation?

Mr. CROSBY. Yes; manipulation.

Mr. MCLAUGHLIN of Michigan. Wouldn't it be well to put in there the difference, as you understand it, between the manipulator and the speculator?

Mr. CROSBY. The manipulator is the man dealing in huge quantities, not to cover actual transactions but to produce an unnatural and undue influence either of depression or advance, thus creating a situation which interferes with the free play of prices and introduces into legitimate operations elements of danger and uncertainty and hazard. It would be represented by enormous dealings for one man or one director of a deal. That might be a foreign government, even.

Mr. MCLAUGHLIN of Michigan. You go on the board of trade to cover actual transactions that you have?

Mr. CROSBY. We only make trades that are directly indicative of wheat purchased or flour sales made.

Mr. McLAUGHLIN of Michigan. Do you know who takes the other end of your transaction on the board of trade?

Mr. CROSBY. I never know that.

Mr. McLAUGHLIN of Michigan. He may be a man who would answer the description of a manipulator, might he?

Mr. CROSBY. It is possible, and that is the reason why I say before I would eliminate him I would want to know what percentage of that volume is the total.

Mr. McLAUGHLIN of Michigan. The manipulator then is one dealing in a thing of which he has not the substance. He is just guessing or betting on the rise or fall of the market?

Mr. CROSBY. As to the speculator, we have the same description, but he does not deal in quantities sufficient to throw the market materially out of line.

Mr. McLAUGHLIN of Michigan. Is the size of the transaction the determining factor as to whether a man is a speculator or a manipulator?

Mr. CROSBY. I think so.

Mr. McLAUGHLIN of Michigan. Then you, if dealing in a very large quantity, might be a manipulator, but if you are dealing in a small quantity you might be a speculator?

Mr. CROSBY. Well, do you refer to the mills or to the individuals?

Mr. McLAUGHLIN of Michigan. Well, the amount of business you do on the board of trade.

Mr. CROSBY. Our trades are all in response to wheat purchased or flour sold. We are not buying without the other end covered. We are not even speculators.

Mr. McLAUGHLIN of Michigan. But the man you are dealing with may be a speculator?

Mr. CROSBY. Yes.

Mr. McLAUGHLIN of Michigan. And he may be a manipulator?

Mr. CROSBY. When he is a manipulator he is able to force us on the other end of the trade unnaturally.

Mr. McLAUGHLIN of Michigan. If you are asking him to take the other end of a big deal he may be a manipulator, and if you are asking him to take the other end of a small deal he is only a speculator?

Mr. CROSBY. I would not say that.

Mr. McLAUGHLIN of Michigan. I do not quite understand your definitions of these two kinds of traders. When you speak of the determining factor being the amount of their transactions what do you mean?

Mr. CROSBY. May I go back two or three years?

Mr. McLAUGHLIN of Michigan. Certainly.

Mr. CROSBY. I think it was in 1916 that the English Government, representing France, England, and Italy, was buying future contracts in this country. Now, they bought to the extent that the markets were absolutely baled out. That was a pure manipulation.

Mr. McLAUGHLIN of Michigan. Were they buying more than they actually wanted?

Mr. CROSBY. I do not think so; but they were buying in enormous quantities.

Mr. McLAUGHLIN of Michigan. How could they be called manipulators under your definition?

Mr. CROSBY. Because they were too big an element for the markets to assimilate.

Mr. MCLAUGHLIN of Michigan. They were buying what they wanted. As to that, your transactions are larger than those of any ordinary dealers?

Mr. CROSBY. But they are always in balance.

Mr. MCLAUGHLIN of Michigan. Were not the English transactions in balance, too?

Mr. CROSBY. No, sir.

Mr. MCLAUGHLIN of Michigan. They were buying what they actually wanted?

Mr. CROSBY. They were buying for perhaps six or eight months' requirements.

Mr. MCLAUGHLIN of Michigan. They were preparing to take what they bought?

Mr. CROSBY. Undoubtedly they were prepared to take what they secured, but that was a dangerous thing to the American consumer.

Mr. MCLAUGHLIN of Michigan. They were not selling, were they?

Mr. CROSBY. No, sir; not that I know of.

Mr. MCLAUGHLIN of Michigan. I thought perhaps you would be able to give us a definition that would be a little better than you have given us, at least to my mind, as to the difference between the manipulator and the speculator, because you suggested the possibility of laws or rules and regulations which might eliminate improper transactions?

Mr. CROSBY. I believe that such suggestions or testimony can be far better secured from those who have the actual knowledge. I can only state here our vision of it as we see it in coming on the market.

Mr. PURNELL. They are both speculators, are they not?

Mr. CROSBY. Undoubtedly.

Mr. PURNELL. The manipulator ceases to be such and becomes a speculator when he does not buy enough to manipulate the market. Isn't that a fact?

Mr. CROSBY. Well, according to our conception there are very few interests sufficiently large to be manipulators.

Mr. PURNELL. That is what I mean. When a speculator buys in such large quantities that he actually through his transactions forces the market one way or the other, doesn't he emerge from a pure speculative capacity into that of a manipulative capacity?

Mr. CROSBY. I think so. But speculators are on both sides of the market. There are almost as many buyers as sellers. Therefore their transactions meet on about an even basis.

Mr. PURNELL. You think the speculator is necessary, but that the manipulator is not?

Mr. CROSBY. I do. It is very hard to make a satisfactory definition, and I do not think I could make it.

Mr. YOUNG. You say there are very few concerns large enough to be manipulators. We would like to know if you can give the names of those concerns which are large enough to be manipulators, and they may be manipulators either in wheat or in cotton?

Mr. CROSBY. You see, I never made a trade in person in the pit. We have no access to the books of traders in the pit, and I am never able to say who are the originators of the orders, and therefore I have no knowledge.

Mr. YOUNG. In your dealings in the trade would you say that those people whom you have termed manipulators are a necessary element that should enter into trading, or whether they, possibly, should be driven out of the business in the interest of fair dealing?

Mr. CROSBY. I think before I would be in a position to answer that question I would have to know more about the volume of the future business, and how it is divided between speculators and manipulators. I do not know. I do not know enough about it to attempt to answer. I have not that knowledge.

Mr. MCLAUGHLIN of Michigan. You have not the exact knowledge, but haven't you had experience enough to have an opinion of your own that you could give us the benefit of?

Mr. CROSBY. I would not trust that opinion on a thing of this kind. One must have more information than I have in order to express an opinion. You should have the facts back of it.

Mr. MCLAUGHLIN of Michigan. I appreciate that you are testifying very carefully, and that you do not want to make a statement that you have no real facts to base an opinion on, but your transactions have been very large, and have covered such a length of time that it has occurred to me you might have an opinion that would be valuable to us. If we should ask some hypothetical questions, you could answer them intelligently and helpfully, it seems to me, but you hesitate to do it?

Mr. CROSBY. I hesitate to give anything here about a thing as to which I have not the facts. I do not think I would be justified in making such a statement. If I had the facts, gentlemen of the committee, I would be glad to spread them out before you, because we are vitally interested in these future contracts.

Mr. MCLAUGHLIN of Michigan. You realize that if we act at all we have to act on the judgment we form as the result of testimony given before us, as the result of impressions we gain and opinions we gather and so on. You are in better position to know about this matter than we are.

Mr. CROSBY. Yes, sir; but I think there are those in the trade whose opinions are better than mine. I have no knowledge on the subject.

Mr. MCLAUGHLIN of Michigan. Then you would make us rely on the statements of those who are actual manipulators?

Mr. CROSBY. Not necessarily. There are many men trading in futures who are not manipulators; very many.

Mr. MCLAUGHLIN of Michigan. Would they know any better than you do what the operations of a manipulator are?

Mr. CROSBY. Oh, distinctly so.

Mr. DICKINSON. After examining the visible receipts of wheat on the plat just furnished you, showing the receipts in the primary markets of the Middle West and the general run, and the supply through the various years, I would like to ask you whether or not, in view of that showing, it would not be an easy matter to adjust the purchases such as your mill makes to a 60-day period in futures?

Mr. CROSBY. At the close of navigation; say, December 1, if our mill at Buffalo is to operate continuously and economically, it should have in sight at least three-quarters of its grind until the ice goes out of the lakes, a period of five months. Transportation facilities make it extremely difficult, even disregarding the question whether lake transportation is cheaper than rail, to keep that mill supplied

with wheat evenly. We should have, for the benefit of both the producer and the consumer, the present narrow margin, and in order to have that we should have those stocks of wheat in Buffalo. Of course, we might have flour sales against them to a certain extent, and to what extent a 60-day limit would act I can not say. There are undoubtedly stocks of wheat carried at Buffalo, but on a 60-day limit that mill could not be carried on properly.

Answering further, we find great difficulty many times in securing wheat at Minneapolis over a period of a week or two weeks, wheat of the qualities required. The receipts as shown on this statement may indicate it, but the quality required may not be there at all. For instance, our storage facilities at Minneapolis are, approximately, 3,250,000 bushels, something over a month's run. But it is necessary to have bins for different kinds of wheat amounting to 700,000 bushels in order to draw the proper mixture at the rate of 125,000 bushels a day. You can not get down too close.

Say there is a stock of wheat in the elevator. Say possibly we have 2,000,000, or two weeks' grind ahead of us. And say that is all we have ahead of us. Then we are dependent upon this flow, and we are using it very largely. But if we are compelled to use it to a larger extent we would either, it seems to me, have to curtail our flour sales for the future or without very much larger terminal facilities we could not go on, and we would not fill those orders unless at higher prices.

Mr. DICKINSON. Do you think future sales are reflected back to the benefit of the producer?

Mr. CROSBY. Absolutely.

Mr. DICKINSON. Do you think that the evils of the manipulator are reflected back to the detriment of the producer?

Mr. CROSBY. Would you ask that question again, please?

Mr. DICKINSON. Do you think that the effect of the manipulator on wheat, on account of being permitted to manipulate under the futures as they now exist, is to reflect that influence back to the benefit or the injury of the producer as the price may go up or down?

Mr. CROSBY. Let me see if I can make a distinction there: To my mind there is rather a hazy distinction, but I do not like the word "manipulator." As to speculator, I say yes, sir.

Mr. TINCHER. You think that the speculator is good for the producer but that the manipulator does not hurt them?

Mr. CROSBY. I am afraid of the manipulator. He is too big.

Mr. TINCHER. But the speculator is good for the producer?

Mr. CROSBY (interposing). I think he is good for both the producer and the consumer.

Mr. TINCHER. Then you think the manipulator would not do the producer any harm?

Mr. CROSBY. He does if he is selling wheat at these low prices, if he is too big for the market.

Mr. TINCHER. Have you ever heard any name used in connection with the manipulation of the market in order that you might answer in the record, but not as a charge made against the party?

Mr. CROSBY. No, sir; what I have is only some newspaper reports, that is all.

Mr. TINCHER. While there have been a good many trades on the board of trade in futures you do not know the names of the parties who have made them?

Mr. CROSBY. I do not know their names at all.

Mr. TINCHER. I just wondered if there was some one, who, at least according to common rumor, had been reputed to have made pretty large trades in futures on the board of trade?

Mr. CROSBY. Of course I try to find that out, but I can not find out.

Mr. TINCHER. There is a mystery surrounding it?

Mr. CROSBY. The man never gives that information out.

Mr. TINCHER. You represent the Washburn-Crosby Milling Co.?

Mr. CROSBY. Yes, sir.

Mr. TINCHER. How large an institution is it?

Mr. CROSBY. We manufacture from 40,000 to 50,000 barrels of flour a day.

Mr. TINCHER. Are there larger milling concerns than yours?

Mr. CROSBY. I do not know of them.

Mr. TINCHER. As far as you know you have the largest milling concern in the United States or even in the world?

Mr. CROSBY. I think so.

Mr. TINCHER. Some man suggested here the other day a mill that made 250,000 barrels a day. I was rather laughed to scorn when I said I had not heard of it, but I had not at that time. You have not heard of that mill either, have you?

Mr. CROSBY. No, sir; I never heard of such a mill.

Mr. TINCHER. One member of our committee seems to know about it, and I am going to get the information here at some time if I can. Mr. Crosby, as the direct representative of the largest milling concern in the world, if there is something mysterious, secretive, concerning the manipulation of the grain market that you yourself are unable to find out about and ascertain the truth concerning, you wouldn't think it was demagogic or wrong for the representatives of the producer of wheat to try to find out something about it, would you?

Mr. CROSBY. Certainly not.

Mr. TINCHER. Did you ever hear Mr. Armour's name mentioned in connection with trades in wheat futures?

Mr. CROSBY. Yes; and we have bought a great deal of wheat from the Armours.

Mr. TINCHER. They trade in wheat futures. It has been charged, though I do not charge it myself, or it has been intimated, that they buy futures at least.

Mr. CROSBY. Yes, sir.

Mr. TINCHER. And you have heard it intimated that they go on the board and sell short for the purpose of affecting the market?

Mr. CROSBY. Those statements are made, of course.

Mr. TINCHER. But there is something so mysterious concerning this board that we can not even find out the number of transactions or the volume of transactions or the percentage, or what you and I consider the unnecessary and detrimental transactions, as compared with the necessary and beneficial transactions; isn't that true?

Mr. CROSBY. I have never been able to arrive at any conclusion as to those percentages.

Mr. TINCHER. I think that is all I wish to ask.

Mr. DICKINSON. The speculator trades for the margin, up or down, with the hope of securing a profit; isn't that true?

Mr. CROSBY. Undoubtedly.

Mr. DICKINSON. Isn't it true that the manipulator differs from the speculator in the fact that he tries to bring undue pressure to bear to influence the market, either up or down?

Mr. CROSBY. That is what I claim; that the manipulator brings undue amounts on the market, amounts that under the conditions existing can not be absorbed.

Mr. DICKINSON. And in that way he is detrimental and causes fluctuations in the market?

Mr. CROSBY. Yes, sir; very violent fluctuations.

Mr. DICKINSON. Would he be barred if we limited futures to a 60-day period?

Mr. CROSBY. I think he would be in the market all the more.

Mr. DICKINSON. Do you think that it would be possible that the manipulator could bring about his desired result if he knew that he had to deal on a short-period contract?

Mr. CROSBY. Yes, sir.

Mr. DICKINSON. You think he would be more detrimental?

Mr. CROSBY. I think so. I have been given the stocks of coarse grain in Minneapolis, and recently there were 8,000,000 bushels of oats in Minneapolis, as against 7,000,000 bushels of wheat.

Mr. WILSON. Getting back to the manipulator: He also holds grain out of the market, to the very great detriment of the consumer and makes it harder for you to get it?

Mr. CROSBY. Do you mean by buying futures and not offering them for sale?

Mr. WILSON. Yes.

Mr. CROSBY. That is true, I think, undoubtedly.

Mr. WILSON. That tends to raise the price of grain, doesn't it?

Mr. CROSBY. Undoubtedly.

Mr. WILSON. And there has been some effort along that line and perhaps to a very great extent, whereby the price of corn and wheat and oats has materially advanced, has there not?

Mr. CROSBY. I am not familiar with corn and oats.

Mr. WILSON. Well, I only know from what I hear.

Mr. CROSBY. Of course, we can not distinguish the underlying reason why wheat goes up other than that there are more buyers than sellers. Whether the buyers is a manipulator or a trader we have no knowledge.

Mr. WILSON. You have no knowledge as to that, but you do know that there is some element at some place that is keeping the grain from the market and that that causes a rise in the price, does it not?

Mr. CROSBY. There is no question about that, sir.

The CHAIRMAN. Will you state the number of grades deliverable on a contract at the Minneapolis Exchange or Chamber of Commerce?

Mr. CROSBY. Nine grades of wheat at the present time.

The CHAIRMAN. There is dark northern, 1, 2, and 3; northern spring, 1, 2, 3; and red northern, 1, 2, and 3; nine altogether?

Mr. CROSBY. Yes, sir.

The CHAIRMAN. Are there fixed differences or commercial differences?

Mr. CROSBY. The differences are fixed differences, the contract grade being No. 2 Red Spring.

Future spring wheat contracts in the Minneapolis Chamber of Commerce.

Applications.	Premium or discount.	Applications.	Premium or discount.
No. 1 Dark Northern Spring..	None.	No. 2 Northern Spring.....	None.
No. 1 Northern Spring.....	Do.	No. 3 Dark Northern Spring..	5 cents discount.
No. 1 Red Spring.....	Do.	No. 3 Northern Spring.....	Do.
No. 2 Dark Northern Spring..	Do.	No. 3 Red Spring.....	Do.

The CHAIRMAN. A fixed difference of 5 cents?

Mr. CROSBY. Yes.

The CHAIRMAN. What is the difference at Chicago?

Mr. CROSBY. Eight cents.

The CHAIRMAN. There is a difference then of 3 cents between Minneapolis and Chicago?

Mr. CROSBY. Yes, sir; 3 cents on the spring wheat grades.

The CHAIRMAN. How do you figure the difference as compared with the actual commercial difference?

Mr. CROSBY. It is very wide.

The CHAIRMAN. What is the commercial difference to-day?

Mr. CROSBY. May I submit the ranges in price, because there is a range of many cents in these three grades, and if I may submit a statement, I would like to do it, over a period, as I believe that would be more satisfactory to you, and I know it would be to me?

The CHAIRMAN. Can you submit a statement giving those differences?

Mr. CROSBY. Yes, sir; and then they will be accurate.

The CHAIRMAN. The committee will be glad to have you do it. If you will kindly submit the statement later it will be printed immediately following your testimony.

As a miller would you prefer fixed differences or to follow commercial differences; that is, would you rather have the difference fixed by the exchange or one fixed by a disinterested party?

Mr. CROSBY. May I reply to that by citing a discussion on the matter?

The CHAIRMAN. You may.

Mr. CROSBY. We had a very interesting discussion on that this summer in our own mill. Of course, the desirable feature in these futures would be a commercial discount arrived at carefully and fairly to all sides. But the difficulty in establishing that commercial discount is that your future contracts run over a long period; and the commercial discount at the time of delivery, at the time when the price would be fixed, might be in relation at the time the trade was made. If, for instance, in August, just as the crops are changing from the old to the new, and wheat has not been on the market, the relationship between 1, 2, and 3 is known to no one. There may be a discount of 2 or 3 cents, or there may be a discount of 10 or 15 cents, depending upon the different characteristics. Then, if the miller buys his future contract, figuring on the discounts existing at that time, and sells flour for quite deferred delivery, after Christmas, say, when the difference in discounts might have been established, if there were a wide range in those discounts he

would have to figure on that in his selling price. They might narrow or widen out. And I think more so would it affect your terminal men. He buys wheat, puts it away, and, say, he buys 3 northern, in order to make an attractive market he should be induced to trade on a narrow margin; but if he buys wheat on one basis, and then when he delivers, three months later, the commercial discounts have changed, he has lost his profits. He will have to figure on that in his buying, and will therefore likely buy less. Every time you insert an uncertainty your buyer always sees that uncertainty when he bids.

The CHAIRMAN. Buying futures is an uncertainty in that there is a good deal of chance taken—by both parties. It is speculation, unless you buy for actual use. Why should not one take the chance of the spread as well on the falling as on the rising price?

Mr. CROSBY. He would. And I think many mills like ourselves, that figure as close as possible, believe that the more uncertainties you eliminate the closer we will figure.

The CHAIRMAN. In buying wheat for future delivery you would take no chance, in that you would turn around and sell it after taking it over?

Mr. CROSBY. Yes, sir.

Mr. HULINGS. I may be a little slow and stupid about one matter, and it seems to me it is a very important one: I had admired this gentleman's lucidity and intelligence as shown by his answers, and it seems to me that he insists that the speculative market, the ordinary operations in the grain pit, are necessary to give his business an existence.

Mr. CROSBY. No, sir; I do not say that—at least, I do not wish to be so understood.

Mr. HULINGS. Well, it is a necessary thing. You could not run your business unless it were done?

Mr. CROSBY. No, sir.

Mr. HULINGS. Then you must buy or sell futures in order to insure your operations; isn't that true?

Mr. CROSBY. No, sir.

Mr. HULINGS. Then you do not think the future market is essential in your business?

Mr. CROSBY. I think it is essential but unnecessary, if there can be that distinction. We could not buy the wheat and stand on it.

Mr. HULINGS. Well, I confess that I do not very well understand that distinction. But, at any rate, do you think that if these people in this room were sitting around and looking at a blackboard, which is the case in any one of a thousand towns in the United States, and were betting on what the next quotation will be, it is a necessary and essential function of the trade?

Mr. CROSBY. Well, sir, if the farmer in Minnesota wanted to sell some wheat, and this group of gentlemen, and other groups like them, were buying, and there were no other sellers, they would be an adjunct to the market.

Mr. HULINGS. You doubtless understand how it is run, because everybody knows. These shops may be found in almost every town.

Mr. CROSBY. Oh, I don't hold any brief for those.

Mr. HULINGS. No; and I am not asking you that. But I am asking whether you think the operation of those concerns all over the country mean the exercise of a proper and essential function of trade?

Mr. CROSBY. Well, I will answer it in this way: If we knew, or if it could be found out, what percentage such trades bear to the total trades, then you could say whether they are an advantage or not.

Mr. HULINGS. It has been said that they bear the relation of about 1 to 14, or that there is about fourteen times as much stuff actually bought and sold where they do not expect to receive or deliver anything as is represented by the actual commodity. Now, the point that I make is this: If all this paraphernalia of trade that you find in the grain exchange is necessary—or, if not all of it is necessary, if a large part of it is essential to the proper conduct of the flour business or the grain business—why is it confined to that business and not extended to the men who buy the raw material and make shoes? They do not have to go into the market and sell shoes on futures. Or, why is it not necessary to the proper conduct of the lumber business, or the coal business? They are not necessarily carried on, as I understand, in that way. I can not understand why it is so necessary to keep up these grain and cattle exchanges alone, and the cotton exchanges, when the bulk of the business of the country is practically the same thing—that of buying the raw material and manufacturing it into finished product and selling it. Why is it not necessary to do it with them? And why is it necessary to be done in the grain business?

Mr. CROSBY. The margins of profit are entirely different. I think it is undoubtedly true that we could eliminate futures entirely, and we as millers need not go out of business. But——

Mr. HULINGS (interposing). Look at the margins now between the prices that you get at your mill and what I have to pay when I buy flour.

Mr. CROSBY. That goes to the distributors.

Mr. HULINGS. It is absurd and ridiculous. It does not seem that the grain exchanges are helping me out in that regard?

Mr. CROSBY. Of course, we have got to get back to normal conditions. We have had tremendous breaks in commodities, in shoes, and all other things.

Mr. TINCHER. You say there has been a break in the price of shoes?

Mr. CROSBY. In everything, leather, and shoes.

Mr. TINCHER. We have not felt it much when we were buying shoes.

The CHAIRMAN. That is all I believe. We are grateful to you Mr. Crosby.

Mr. CROSBY. I thank you gentlemen.

(The following are the requested closing prices for Wednesday, January 12, 1920, in the Minneapolis market:)

No. 1 Dark Northern Spring	$1.91¼–$1.95¼
No. 2 Dark Northern Spring	1.87¼– 1.92¼
No. 3 Dark Northern Spring	1.80¼– 1.88¼
No. 1 Northern Spring	1.87¼– 1.92¼
No. 2 Northern Spring	1.84¼– 1.88¼
No. 3 Northern Spring	1.79¼– 1.84¼
No. 1 Red Spring	1.84¼– 1.87¼
No. 2 Red Spring	1.80¼– 1.84¼
No. 3 Red Spring	1.75¼– 1.81¼

The CHAIRMAN. We will now hear the next witness.

Mr. HARLAN. I would like to be heard.

The CHAIRMAN. Kindly give your name, place of residence, and your business to the reporter.

STATEMENT OF MR. H. V. HARLAN, OF THE MINNEHAHA NATIONAL BANK, SIOUX FALLS, S. DAK., REPRESENTING THE SOUTH DAKOTA BANKERS' ASSOCIATION.

Mr. HARLAN. Mr. Chairman and gentlemen, the South Dakota Bankers' Association are interested in this matter for the reason that they are largely a grain-producing and agricultural State. We are just now passing through some very dark days in the Northwest, for reasons you are all acquainted with, and our agricultural interests have been refraining from shipping or marketing any grain. We believe that the time of marketing is now about to be resumed, and if we have no serious disturbance or abrupt changes in our marketing machinery, we will have a chance to get along, and if we do have some great change made we will have a much worse condition to ensue than we have just gone through.

Nearly all our neighboring States to the north and west have had many serious troubles in connection with the banking business, many banks having closed, which condition we have avoided in South Dakota, and we believe if there are no serious changes in our marketing machinery that we will have relief very shortly. We believe that the present marketing system, while it has its abuses and no doubt things should be corrected, yet there is nothing more constructive being offered at this time. I believe, gentlemen, that constitutes the attitude of the South Dakota bankers.

The CHAIRMAN. Any questions?

Mr. TINCHER. You say there is nothing constructive offered at this time. What bills have you read that are pending before the committee?

Mr. HARLAN. I am not familiar with the bills.

Mr. TINCHER. You are just willing to take a chance in saying they are not constructive, are you?

Mr. HARLAN. Well, I do not wish to be understood as offering any criticism.

Mr. TINCHER. Well, you are testifying for the information of a congressional committee, and you say, as a part of your testimony, that there is nothing constructive in your judgment pending before the committee. I understand that you are willing to have that statement go, even though you have not read any of the measures that are pending before the committee?

Mr. HARLAN. Yes.

Mr. TINCHER. What exchanges have you membership in, if any?

Mr. HARLAN. I have not a membership in any exchange.

Mr. TINCHER. What bank are you connected with?

Mr. HARLAN. With the Minnehaha National Bank.

Mr. TINCHER. How large a bank is that?

Mr. HARLAN. With deposits of about $2,500,000.

Mr. TINCHER. Where is your correspondent?

Mr. HARLAN. In Chicago, do you mean, or what other point?

Mr. TINCHER. Anywhere?

Mr. HARLAN. In Chicago we have the Continental and the Commercial.

Mr. TINCHER. Have you any correspondent in Minneapolis?

Mr. HARLAN. The First National Bank of Minneapolis.

Mr. TINCHER. Are you acquainted with the grain dealers in Minneapolis?

Mr. HARLAN. I am not.

Mr. TINCHER. Have you attended any meetings in Minneapolis?

Mr. HARLAN. No, sir.

Mr. TINCHER. What was the occasion of your trip down here?

Mr. HARLAN. I was delegated by the executive committee of the South Dakota Bankers' Association. I might also say that I am interested in some country banks. We have had occasion to make considerable loans to a great many country banks, and to those country banks particularly at the grain-moving time.

Mr. TINCHER. Isn't grain moving now?

Mr. HARLAN. It is just about to start.

Mr. TINCHER. What do you mean—that they have just been threshing?

Mr. HARLAN. In our section of South Dakota there is very little wheat. It is largely corn. It has just begun to move. We make considerable loans to those country banks, and if they do not have some means of protecting themselves in buying grain, we do not feel that we could extend loan accommodations to those banks.

Mr. TINCHER. Do you mean that the banks of South Dakota buy grain, the smaller banks?

Mr. HARLAN. They do not buy grain, but they finance buyers, the cooperative shipping associations.

Mr. TINCHER. The cooperative shipping associations do not sell futures, do they?

Mr. HARLAN. They have to sell when they buy or else they are in a very hazardous business.

Mr. TINCHER. Can you name a cooperative concern in your State that sells futures?

Mr. HARLAN. As a matter of a hedge I believe it is termed, when they sell.

Mr. TINCHER. Can you name one that sells futures, as a matter of hedge, one cooperative concern in the whole State that you come from?

Mr. HARLAN. Well, I am not interested in the management of those concerns. I would hate to attempt to point them out. But I understand that the practice is general.

Mr. TINCHER. I would like to know about it. My understanding is that not one of them sells futures as a matter of hedge. Your understanding is another thing, and we ought to find out which is right, and I do not know which is right.

Mr. HARLAN. No; but I have talked with a number of grain men, and I understand that the practice is general.

Mr. TINCHER. What grain men in South Dakota connected with a cooperative institution told you that his institution sold futures as a matter of hedge?

Mr. HARLAN. Well, I did not anticipate that you wanted any particular names.

Mr. TINCHER. Certainly, if it is true, the name will not hurt anything, because it must be a practice that they are proud of and want to keep up if they are engaged in it. I do not think they are selling futures as a matter of hedging, but if it is true they ought to tell us and not ask us to deny the proposition and not have their names connected with it.

Mr. HARLAN. If they buy grain and do not hedge it is a very hazardous proposition.

Mr. TINCHER. They have their bids for grain every morning. Do you know of any bank in the State of South Dakota that loans a man money in the country who is gambling on the board of trade?

Mr. HARLAN. No, sir.

Mr. TINCHER. They won't do it, will they?

Mr. HARLAN. No, sir.

Mr. TINCHER. Still you want us to continue these gambling interests, and you are afraid that if we interfere it will hurt your banking business in South Dakota.

Mr. HARLAN. We are not trying to protect the gambling features at all. We want to help the farmers' situation.

Mr. TINCHER. That is what we are after. The only bills pending before this committee are bills to prevent gambling in futures.

Mr. HARLAN. Yes, sir.

Mr. TINCHER. Won't you change your statement that there is nothing constructive here?

Mr. HARLAN. All right.

Mr. WILSON. I thought you had read all of the bills when you made your statement?

Mr. HARLAN. No, sir; we have a practical grain man as a member of our committee, and he will tell you about that.

Mr. TINCHER. What you are afraid of is that—if we pass a law outlawing certain features of the exchanges—certain practices followed at the present dealing in grain, that it will hurt marketing conditions, and hurt the people out in your country?

Mr. HARLAN. Yes, sir.

Mr. TINCHER. The reason you got scared about that and came to Washington was because of certain propaganda that got out in your State to the bankers. How did you first learn that these bills were pending?

Mr. HARLAN. I can not tell you that. I am delegated by the executive committee of the South Dakota Bankers' Association to come here.

Mr. TINCHER. I wondered what kind of letters have been gotten out. I do not think that any member of the committee, who had a bill pending, could have written you a letter to scare you about it?

Mr. HARLAN. No, sir.

Mr. TINCHER. Your idea is that if we pass a law to prevent future selling of this grain it will hurt?

Mr. HARLAN. We believe that we should have a market to sell this grain for future delivery. In South Dakota the railroad facilities are not always the best—storm conditions prevent immediate shipment and delivery.

Mr. TINCHER. I will ask the clerk of the committee to give me a copy of my bill, and I think I can get this witness to indorse it.

Mr. HARLAN. When I said that I understood that nothing constructive had been offered, I really meant to say until something constructive has been offered.

Mr. TINCHER. I want to say to you that it would be rather hard on the congressional district that I represent if we did anything to destroy the grain market. You think it would be all right if the law allowed the seller at the time he made a contract of sale, though he was not the owner of the physical property, to hedge to the extent of three times the property he is allowed to hedge on or would you want more than that?

Mr. HARLAN. I should say that three times would be ample.

Mr. TINCHER. That is what one of the bills pending here, introduced on the 6th day of December, provides. Now, Mr. Harlan, if you will take this bill and without too much consultation with some of your——

Mr. HARLAN (interposing). Do you mean do it myself?

Mr. TINCHER. Yes; and go over it carefully, I think you will indorse it.

Mr. HARLAN. All right. I want to say that Mr. Sharp, who is a member of this committee, will tell you more about that matter than I can.

Mr. TINCHER. Well, I am not so much afraid of Mr. Sharp by name as I am of somebody who is rather sharp other than by name.

Mr. HARLAN. All right.

Mr. MCLAUGHLIN of Michigan. You have said that there are some abuses that ought to be corrected. Will you point out the abuses that you think ought to be corrected?

Mr. HARLAN. Well, I had reference to this manipulation and running of what we call large corners, that are purely gambling.

Mr. MCLAUGHLIN of Michigan. Is that all you can say by way of describing what they are?

Mr. HARLAN. Yes; I am familiar with them only by newspaper accounts. I am not a grain man myself.

Mr. MCLAUGHLIN of Michigan. And they should be corrected?

Mr. HARLAN. Yes, sir.

Mr. MCLAUGHLIN of Michigan. Have you a remedy to suggest?

Mr. HARLAN. No, sir. It is up to you gentlemen to find out.

Mr. MCLAUGHLIN of Michigan. You are right there, and you see the abuses, and you are affected by them. Has any remedy ever suggested itself to you?

Mr. HARLAN. No, sir; that is an economic matter I would hate to give an opinion upon. You have economic experts who can testify.

Mr. MCLAUGHLIN of Michigan. That is a pretty hard nut for us to crack. You are a banker dealing with these matters, and are also interested in the welfare of the producers and dealers out there. If you have no remedy, and if Mr. Washburn, who represents the largest milling concern in the world, says the abuses exist but he can not describe them, and has no remedy to suggest for them, it must be a pretty difficult matter for this committee to know what they are or to find a remedy, don't you think?

Mr. HARLAN. Practical grain men with whom I have talked about that matter, and who understand that better than I do, say these things will creep in and that a certain amount of speculation will follow the business. But it is going to do that with an open and free market.

Mr. MCLAUGHLIN of Michigan. That is all.

Mr. HULINGS. I would like to ask if you think that these warehouses all around the country, where men are sitting around betting on the market, perform a valuable function?

Mr. HARLAN. These bucket shops?

Hr. HULINGS. They do not call them bucket shops, but wire houses because they say they send their orders to an exchange and have them executed there.

Mr. HARLAN. I can not tell you about that.

Mr. HULINGS. I take it that a very large proportion of the transactions made on the exchange every day is the assembling of those orders. If they do not perform a valuable function in the trade what is the use of enticing those men away from their own business, to sit around a blackboard gambling on the market; if they perform no valuable function why shouldn't that be abolished?

Mr. HARLAN. Well, that is a matter I don't think I would be capable of passing an opinion on. It is a matter for your committee.

Mr. HULINGS. You do think, however, that they do not perform a valuable function in the trade?

Mr. HARLAN. In our banks we do not loan any money for that purpose. But we loan money for the moving and handling of grains.

Mr. HULINGS. That is just one of the things that creeps in?

Mr. HARLAN. Yes, sir.

Mr. HULINGS. I have heard about the camel that got his head under the tent, and he kept creeping in until he was all through. So I think a very large proportion of these transactions on the exchange have their sources just in that way and probably result in the same way.

Mr. MCLAUGHLIN of Michigan. Perhaps I misunderstood what you said in one respect. You said that your bank and the bankers of your State were unwilling to loan money to men who were dealing in futures; is that a fact?

Mr. HARLAN. We would not loan money for the purpose of purely buying futures. We loan money to elevator concerns and to actual buyers of grain where we know they are protected and we are protected either by their own assets or by hedging.

Mr. MCLAUGHLIN of Michigan. Do you bankers make inquiry as to what a man wants money for, and particularly to know he has this stuff to deliver, and just what the nature of the transaction is?

Mr. HARLAN. Yes; we want to know where our money is going, the purpose of it, and how we are protected.

Mr. MCLAUGHLIN of Michigan. And if the manager of one of your cooperative associations tells you that he has found it necessary to hedge, you consider that a protection to him and that he is a safer borrower?

Mr. HARLAN. Yes, sir.

Mr. MCLAUGHLIN of Michigan. That is, from your end of the transaction?

Mr. HARLAN. Yes, sir. He can buy that grain on a much closer margin if he has sold it, and he is removed from the hazardous class.

Mr. MCLAUGHLIN of Michigan. Do you think that those men connected with the cooperative associations, whose transactions you approve, could carry on their business as they do unless there was somebody or a large number of somebodies to take the other end of their transactions, men who have not the goods to deliver?

Mr. HARLAN. That they would be better risks, do you mean?

Mr. MCLAUGHLIN of Michigan. No. As to these men who make these hedges in the manner that you would consider all right, do you think they could carry on their business unless there were a large number of men ready to take the other end of the transaction, men who are not handling the actual grain itself?

Mr. HARLAN. I do not believe they could.

Mr. McLAUGHLIN of Michigan. In your judgment, is it necessary to have a board of trade where men carry on this business——

Mr. HARLAN (interposing). Well, there must be buyers.

Mr. McLAUGHLIN of Michigan. Speculators?

Mr. HARLAN. They may be termed such.

Mr. McLAUGHLIN of Michigan. Manipulators and gamblers?

Mr. HARLAN. I do not think they are that.

Mr. McLAUGHLIN of Michigan. Where do you stop?

Mr. HARLAN. I have heard your discussion here and it is a hard matter to discriminate between the speculator and the actual buyer.

Mr. McLAUGHLIN of Michigan. You can not offer any definition that would distinguish the speculator from the gambler or the manipulator from the speculator, can you?

Mr. HARLAN. Well, I think a milling concern trying to protect its flour sales——

Mr. McLAUGHLIN of Michigan (interposing). No; we are now at the other end of the transaction.

Mr. HARLAN. I would hate to try to give you any idea of the definition between the two.

Mr. McLAUGHLIN of Michigan. You think there is no element of gambling or speculation in the transaction of the miller who hedges to protect his business?

Mr. HARLAN. No; I would not call that speculation or gambling. I would call it safeguarding.

Mr. HULINGS. But the man who takes the other end of that deal, would you lend him money outside of his own personal responsibility and assets?

Mr. HARLAN. There would come in the large city banking that we are not familiar with. It is the producer and the country shipper that we are interested in.

Mr. HULINGS. You would lend money to the elevator man if he sold futures to protect himself in the purchase, and you would consider him a better risk?

Mr. HARLAN. Yes; if he had sold that grain as soon as he bought it and knew himself to be protected.

Mr. HULINGS. But you would not agree to finance a man who took the other end of that deal and agreed to pay it where you knew he was not handling the real stuff?

Mr. HARLAN. I do not think so; no, sir; not by any means.

Mr. McLAUGHLIN of Michigan. This grain dealer whose transactions you have mentioned and which you think are all right, when he makes a hedge, if that is the right expression, that man has no idea, has he, of delivering on that hedge?

Mr. HARLAN. He has the cash grain in his elevator.

Mr. McLAUGHLIN of Michigan. But he does not intend to deliver that to the man with whom he has the hedge?

Mr. HARLAN. He sells the cash grain and discharges the hedge, or takes it up.

Mr. McLAUGHLIN of Michigan. That is, he settles in money with the man with whom he has the hedge. Therefore it is not a grain transaction between those two men, is it?

Mr. HARLAN. It is an insurance feature by which to protect himself.

Mr. McLAUGHLIN of Michigan. It is not a grain transaction between those two gentlemen, is it?

Mr. HARLAN. No; really it is an insurance feature.

Mr. McLAUGHLIN of Michigan. I say, it is not a grain transaction, is it, really?

Mr. HARLAN. It is incident to the handling of his grain.

Mr. McLAUGHLIN of Michigan. My questions may not be relevant or all that they ought to be, but I am trying to get some information for myself as to the difference between the two transactions, the one legitimate and the other improper, how they can be distinguished or differentiated; and how, possibly, we can find a remedy—that is, by way of eliminating the improper transactions. You hesitate to express an opinion on these things or to give a definition because of your lack of experience?

Mr. HARLAN. I am not experienced in the grain business at all.

Mr. McLAUGHLIN of Michigan. Some one has come with you who is experienced?

Mr. HARLAN. Yes, sir; Mr. Sharp.

Mr. McLAUGHLIN of Michigan. And he will answer these questions?

Mr. HARLAN. Yes, sir.

Mr. McLAUGHLIN of Michigan. All right. He is the man we are looking for.

The CHAIRMAN. Why is it necessary for an elevator man to deal in futures, and why does it improve him as a risk?

Mr. HARLAN. Because where an elevator man fills his elevator with grain very much time must elapse before he can get the grain to the central markets and dispose of it and get the cash.

The CHAIRMAN. Is it not sometimes because of the impossibility to get cars?

Mr. HARLAN. Yes, sir.

The CHAIRMAN. And if it were possible to sell on arrival that would not be necessary?

Mr. HARLAN. That would be an indefinite delivery, wouldn't it?

The CHAIRMAN. I understand that when there is a scarcity of cars it is better to sell a future than to take a chance?

Mr. HARLAN. Well, to sell on arrival might mean some little delay.

The CHAIRMAN. Suppose you draw a draft to sell on arrival and there is trouble getting cars? Therefore it is unsafe to sell that way, and they go into the exchange and buy a hedge?

Mr. HARLAN. Yes, sir.

The CHAIRMAN. Is that why they buy for future delivery on the exchange?

Mr. HARLAN. They buy to protect themselves when the grain is harvested so that they may know it is sold.

The CHAIRMAN. Why do they do that?

Mr. HARLAN. So as to be on a closer margin. They would have to be on a wide margin if they did not have that insurance.

The CHAIRMAN. If they could sell a contract to arrive on a future date they could avoid this insurance?

Mr. HARLAN. Yes; if they had the buyers.

The CHAIRMAN. If they had the cars or some guaranty that cars might be furnished they would be safe in selling on arrival?

Mr. HARLAN. Yes; barring storms and other unforeseen difficulties. I do not know what guaranty you would get, however.

Mr. YOUNG. If a grain dealer out in your country goes into the market to buy, say, 500,000 bushels of wheat, he then goes on the ex-

change and sells 500,000 bushels of wheat against this buy he is making?

Mr. HARLAN. Yes, sir.

Mr. YOUNG. That is hedging or insurance against a decline in the market?

Mr. HARLAN. Yes, sir.

Mr. YOUNG. The point I want to know about is this: Under the present methods of trading doesn't it frequently happen that it will mean a loss, both on the drop in price of the spot grain and on the hedging contract?

Mr. HARLAN. Well, that should be his business, the matter of speculating. His business should be buying on a fair margin.

Mr. YOUNG. Doesn't that thing actually happen, though, in practical operation?

Mr. HARLAN. It might happen; yes, sir.

Mr. YOUNG. I have known it to happen over and over again in a cotton trade that the man would lose both on his hedge and on his spot transaction. We have a world of people in the cotton territory who go out and buy cotton and then sell on the exchange when they are buying, and when settlement time comes they have lost on both. Does that happen in the wheat trade?

Mr. HARLAN. He has the actual wheat to deliver, so he is insured against any loss. If he had not hedged that wheat it might have gone off.

Mr. YOUNG. That is all.

Mr. MCLAUGHLIN of Michigan. You gave, to a certain extent, your approval to the first section of the bill that Mr. Tincher read, that it might be a good thing to limit hedges to three times the actual amount of wheat in the protection of the man making the hedge.

Mr. HARLAN. I gave it as my impression that that ought to be amply sufficient. I am not a grain man and I would not want to answer for the technical side of it.

Mr. MCLAUGHLIN of Michigan. But you think that might be all right?

Mr. HARLAN. Yes, sir; it ought to be amply sufficient.

Mr. MCLAUGHLIN of Michigan. But you admit that there is an element of speculation and gambling in it after all?

Mr. HARLAN. Yes, sir. But I do not know why he would want to hedge three times what he bought if he is a legitimate buyer.

Mr. MCLAUGHLIN of Michigan. If there is a law against gambling which would include a poker game, do you think it would be all right to permit penny ante, or a game at a 10-cent limit, but if the limit was the sky it ought to be forbidden, or if it was a game for large stakes it ought to be forbidden; is that the idea?

Mr. HARLAN. Well, I don't quite get you on that. But I do not want to be understood as approving one of our grain buyers even selling three times the grain he has bought.

Mr. MCLAUGHLIN of Michigan. Buying one time meant that he had made a purchase?

Mr. HARLAN. I should think he ought to do that, hedge, from my experience.

Mr. MCLAUGHLIN of Michigan. There would be no element of speculation in that?

Mr. HARLAN. No, sir.

Mr. McLAUGHLIN of Michigan. That would be entirely free from the gambling idea?

Mr. HARLAN. If when he bought wheat he hedged I would not consider that gambling.

Mr. McLAUGHLIN of Michigan. On his hedge he does not deliver or accept grain, and has no intention to do it. His intention, as is the intention of the party at the other end of the deal, is to settle in money, and therefore it is not what I have spoken of, a grain transaction?

Mr. HARLAN. If it is a book future it would not be, but if he would have the actual grain and would sell and protect same by a hedge.

Mr. McLAUGHLIN of Michigan. I do not want to be offensive, but isn't it a gambling proposition after all?

Mr. HARLAN. The man buys grain and then he turns around and sells an equal amount of grain, so I say I do not consider that gambling.

Mr. McLAUGHLIN of Michigan. He does not sell the grain, my friend, does he? Of course the man buys for the purpose of selling, but in this hedging transaction he is not in fact selling grain, is he?

Mr. HARLAN. Well, he has the actual cash grain in his elevator which he will sell.

Mr. McLAUGHLIN of Michigan. But not for the purpose of delivery on the hedge?

Mr. HARLAN. He can deliver it.

Mr. McLAUGHLIN of Michigan. He does not do it once in a thousand times, does he?

Mr. HARLAN. No; I do not think so.

Mr. McLAUGHLIN of Michigan. He did not buy it for that purpose?

Mr. HARLAN. No, sir.

Mr. McLAUGHLIN of Michigan. And if he has to make good on that hedge he does not do it in any other way except by the payment of the difference in money. He does not deliver the grain he had on hand at all. He is permitted, in fact, to deliver another quality of grain altogether, isn't he?

Mr. HARLAN. Well, I presume that under the exchange rules they permit a certain variation there.

Mr. McLAUGHLIN of Michigan. There would have to be?

Mr. HARLAN. Yes, sir.

Mr. McLAUGHLIN of Michigan. I am not saying it is wrong, because I am not expressing an opinion on it at this time; but it is a speculation and it is a gamble; and if it is to be permitted, under Mr. Tincher's bill, if somebody is to be permitted to gamble a little bit, I can not differentiate as to the larger gambler. It seems to me my illustration is pat, that if the penny-ante game can not be forbidden without injury then the game with larger stakes can not be forbidden, or that if the one is forbidden the other must be forbidden?

Mr. HARLAN. I think our grain men should be protected or else there will be a bigger margin between the producer and the consumer.

Mr. McLAUGHLIN of Michigan. You may be entirely right about that. I do not know.

Mr. TINCHER. I do not suppose you have given this provision of the bill any consideration. Some people think it is not within the

powers of the Congress to pass a law forbidding a man to sell a product for future delivery. Some of us think that if we can not pass such a law that there is an evil existing that is rather hard to reach by legislation.

Mr. HARLAN. Yes.

Mr. TINCHER. Some have suggested a criminal statute to prevent the use of the mails or the wires in interstate commerce. Others say they think that we could better reach the matter by a tax law, distinguishing between the man who deals in the article and the man who has no notion of dealing in the original article.

Mr. MCLAUGHLIN of Michigan. Can you explain how a man is dealing in the original article when he enters into a hedging transaction?

Mr. TINCHER. I do not contend that for a minute.

Mr. MCLAUGHLIN of Michigan. You used that expression in there?

Mr. TINCHER. No; I have never said anything that could be by any process of reasoning or construction switched into an intimation that the man who deals in hedges or futures is dealing in the original article. I do not mean that at all. There is nothing in my bill that would indicate I meant anything of that kind. If a man actually buys grain and wants to sell it for future delivery my bill would say, all right, you can do that. He might answer and say, I do not know just how much I am going to have, because I am in this business, but if you sell more than three times the amount of the purchase, then you meet the condition in the bill. There is no man who can say that that proposes to legalize certain kinds of gambling and make other kinds of gambling illegal, because if a man wants to pay a tax on dealing in more futures than that he can, under the bill, go ahead and make the deals and pay the tax. I do not mean to say that my bill is any better than any other bill that attempts to regulate it, by forbidding the use of the wires or the mails. The only reason I was afraid of that was that there would be so much intrastate business that we would not reach the evil.

The CHAIRMAN. Are there any other questions? We are very grateful to you, Mr. Harlan.

Mr. HARLAN. I am much obliged to you.

Mr. TINCHER. I think it is only fair to say to you, Mr. Harlan, and to the people of your country, that the greater part of your testimony has been on a hypothetical basis, that the cooperative grain men of your country were selling futures. I am advised, but I do not know how accurate my information is, that while they sell grain in your country for future delivery, yet your legitimate grain dealers do not hedge on grain futures. I do not know whether I am right or not, and you tell me you do not know whether that is right or not.

Mr. HARLAN. Mr. Sharp, I think, can tell you about that.

The CHAIRMAN. Thank you. We will hear Mr. Sharp.

STATEMENT OF MR. W. Z. SHARP, A BANKER AND GRAIN DEALER IN SIOUX FALLS, S. DAK.

Mr. SHARP. Gentlemen of the committee, all I will state is to say briefly the way we use the market as a hedge. At Cedar Rapids, Iowa, we have what is known as a clearing house or transfer house. We buy merchandise, our own stuff, and we use the board of trade to keep our sales and purchases even. Sometimes we buy and some-

times we sell. For illustration, if we get an order from a cereal company for 300,000 bushels of oats, and we only have on hand 50,000 bushels, we would immediately purchase 250,000 bushels of oats on the board of trade, at the option nearest to the delivery point of the actual stuff.

I used to have a line of small country elevators in South Dakota, 15 in number. It is always the case every year that I have known in that country for our elevators to absolutely fill up in the fall, during what we call the rush season. You have either got to stand long on that grain all through that season or you have got to sell futures against it.

Right here I want to say, in reference to the farmers' elevators in that country, some gentleman here having asked if they ever used the board of trade; I will say if they had done it they would not have gone broke. Nearly every farmer's elevator from Edan to Woonsocket, S. Dak., has gone broke recently, and the reason of it was that they had large elevators and had them filled with grain and did not hedge on a declining market and therefore had no protection. That is, just briefly, my side of it.

Now, we loan money to farmers' elevator companies. That is, we take their paper through our correspondent banks. We only take it when they get at least half a dozen farmer directors who are worth at least $50,000 to $100,000 to indorse the paper personally, and that is for the reason that in my estimation there is no business as hazardous as the grain business. The market fluctuates and we can not tell what it is going to be.

Mr. YOUNG. Of course, you do not know much about the cotton business?

Mr. SHARP. No, sir. I have known a number of men go into the grain business and make a great success in three or four or five years and then go broke in one year by being on the wrong side of the market. That has been demonstrated.

Gentlemen of the committee, that is all I have to tell you, but I will try to answer your questions as best I can.

The CHAIRMAN. Any questions?

Mr. YOUNG. I want to ask you this question: They have in foreign countries boards of trade and exchanges that do a similar class of business to the boards of trade in this country with reference to grain products, haven't they?

Mr. SHARP. I do not know.

Mr. YOUNG. Well, that is true with reference to cotton. They have those exchanges, and we have been troubled by this question for 10 years in my own experience, and I have always been confronted by the proposition that whatever we do, if we were to destroy the exchanges in this country, still when there are similar exchanges dealing in commodities produced here that are operating under the laws of other countries, what would be the result? Do you think that is true in reference to wheat and grain?

Mr. SHARP. I do not know about that.

Mr. YOUNG. They do have them in other countries so far as cotton is concerned. You can readily see what sort of trouble we would have in the case of a commodity like cotton, a majority of which is exported. As to wheat, only a small part of that which we pro-

duce is exported. But 65 per cent of the cotton crop is exported. They have their exchanges over there, and whatever we do here by way of regulating or abolishing the machinery of them, we could not affect their exchanges, and I want to know what effect that would have on the general market if we should abolish our cotton exchanges?

Mr. SHARP. I do not know. I can not work that out. I do know that it would be very difficult for a large concern to be able to transact business rapidly without the chance for some protection. For instance, we get an order from the Universal Oats Co. for 400,000 bushels of oats, and we only have 50,000 bushels on hand. We sell them the oats, and then we protect ourselves. In the meanwhile they protect themselves.

Mr. PURNELL. What determines the price of grain from day to day as it fluctuates, up and down?

Mr. SHARP. Well, I think eventually the law of supply and demand decides more than any other one thing.

Mr. PURNELL. Suppose we were sitting around a blackboard—and I have never had any occasion to actually indulge in that pasttime—but there are shown quotations on a given product, and they rise and fall during the open hours of the market. What determines the rise and fall of quotations on a given product?

Mr. SHARP. Well, I think the law of supply and demand, and sentiment. For instance, when the war broke out you know what happened, and how it was busted.

Mr. PURNELL. Does the buying or selling by individuals, that we class here as speculators, who have no grain to sell and do not anticipate delivering any grain, affect the price?

Mr. SHARP. Yes, sir; I think they do in the same way that our real estate is handled.

Mr. PURNELL. Is it your opinion that those speculators, who have no product to sell and who do not anticipate delivering any product, are necessary for the purpose of stabilizing the market?

Mr. SHARP. Well, I think we would have to have somebody there, whether you call them speculators or not. I would look upon them the same as we do in our live-stock business—our stockyards—that we have to have the speculators there.

Mr. PURNELL. You differentiate between the speculator and the manipulator, of course?

Mr. SHARP. Yes; I think so. The manipulator, of course, is the fellow who trys to corner the market and get everything his own way and make everybody settle on his own basis. I term them a good deal like Old Hutch, if you want to go back to ancient history, or George Phillips in the corn market. At that time they were a very great benefit to the producer.

Mr. PURNELL. Suppose it were possible to limit by some legislation the speculator—and I mean by speculator the man who has no grain to sell and who does not sell in anticipation of actual delivery; suppose we could eliminate him by legislation, as well as the manipulator, what would be the result on the general market?

Mr. SHARP. Well, personally—do you ask for my opinion?

Mr. PURNELL. Yes.

Mr. SHARP. I do not believe it can be done successfully.

Mr. PURNELL. For the sake of the argument, let us assume that it can be done by legislation. I want to find out what the effect of that legislation would be on the man who received grain and who must find a market for it? I mean the man who raises the grain and wants to find a market for it.

Mr. SHARP. Well, I would think that everybody that handled his commodity would demand a larger margin for the handling of it in order to protect themselves.

Mr. PURNELL. That has been the testimony of the other witnesses before the committee. In other words, you think that by reason of this present system they do business on a narrower margin?

Mr. SHARP. Yes, sir; I do.

Mr. PURNELL. You think the farmer profits by the present system?

Mr. SHARP. Yes, sir.

Mr. PURNELL. That is all I wish to ask.

Mr. MCLAUGHLIN of Michigan. The preceding witness said it was generally recognized that there were evils and abuses in the methods now pursued on the boards of trade, and I think that is true, and that they ought to be corrected. He was asked to state what those abuses are and a remedy therefor, and he said that he did not know but that you could tell us all about it. Now, go ahead and tell us.

Mr. SHARP. Well, I will tell you that I thought he was getting a little strong on that. I do not think I can tell you all about it. I think, no doubt, as in all other kinds of business, some evils have crept in, but I could not answer your question.

Mr. MCLAUGHLIN of Michigan. Perhaps that question may be divided, and I will now ask you for a statement of the abuses?

Mr. SHARP. Well, I think the larger proportion of the abuses on the boards of trade are such abuses as are permitted only by the people who do the acts themselves. For instance, some young fellow, or I have seen an old farmer do it, who may think he is pretty wise and knows which way the market is going, would go into one of these places and lose $500 or $1,000, or maybe $2,000, and then he might try to get even.

Mr. MCLAUGHLIN of Michigan. Who would he lose it to?

Mr. SHARP. That is something we do not know. You generally go on the board of trade and a member buys or sells when the market goes either way.

Mr. MCLAUGHLIN of Michigan. Would the market show that?

Mr. SHARP. Of course, the fellow who sells does not know who gets it. These individual members attend to that, as I understand.

Mr. MCLAUGHLIN of Michigan. Then we might pass a law forbidding the young fellow or the farmer to trade on boards of trade. What other abuses are there?

Mr. SHARP. Well, excuse me for suggesting something, but when you pass that law then you pass a law that prohibits the farmer who has a matured crop of corn, like he did have two months ago and was satisfied to sell at the price of two months ago, from stepping in and selling his crop at that time. It has made him a lot of money this year.

Mr. MCLAUGHLIN of Michigan. That is an abuse that we can not pass a law to prevent?

Mr. SHARP. Yes; you can not stop the one without the other.

Mr. McLAUGHLIN of Michigan. Tell us of some evil that you think exists that can be corrected and then make good the statement of the previous witness and tell us how to correct it?

Mr. SHARP. Well, I can not do that. I have not given it thought enough.

Mr. McLAUGHLIN of Michigan. What abuse exists that you think ought to be corrected, then, if you do not know of a remedy yourself?

Mr. SHARP. Well, I do not know. I am pretty well satisfied the way it is now. I do not think I can suggest anything.

Mr. McLAUGHLIN of Michigan. Then you differ from him in saying that there are abuses?

Mr. SHARP. No; I think there are abuses, but I do not think you can get at anything of the kind but what there will be abuses practiced by somebody. If you prohibit the one, you will interfere with the other. It is just the same as though you were to say you would pass a law forbidding a man to own any land or buy any land unless he was going out to farm it. The speculator has stepped in and got on the land the same as the speculator has got on boards of trade and is betting on options.

Mr. McLAUGHLIN of Michigan. No; isn't there a difference? The man who has gone out and bought land owns land, but the speculator dealing in wheat has not bought any wheat?

Mr. SHARP. Oh, yes he has.

Mr. McLAUGHLIN of Michigan. Oh, no.

Mr. SHARP. Oh, yes. If a man buys 5,000 bushels of May wheat he has actually bought 5,000 bushels of May wheat if he keeps that purchase until delivery is to be made to him.

Mr. McLAUGHLIN of Michigan. Oh, yes.

Mr. SHARP. Well, he has bought it. The transaction is based on the actual stuff.

Mr. McLAUGHLIN of Michigan. I do not want to quibble and I do not want you to do so, if you will pardon me for using that word When one of these men you speak of buys this protection he does not buy wheat at all, does he?

Mr. SHARP. Yes, sir; he does.

Mr. McLAUGHLIN of Michigan. In how many cases do you know of delivery being made on any such deal?

Mr. SHARP. I think in very few cases, because if a man buys that protection as a matter of insurance, he has to buy the actual stuff For instance, if a man sells to protect himself from the danger of having an elevator full of grain, he can sell in Chicago, and when the market got to the point that he wanted to buy the actual stuff the differential might be in favor of Minneapolis, by 2 or 3 cents a bushel. He would turn around and sell his actual grain in Minneapolis and at once cover his option in Chicago. These markets are all influenced by one another but they sometimes spread a little.

Mr. McLAUGHLIN of Michigan. My insistence is, though I may be wrong, that these transactions are not in the actual commodity at all?

Mr. SHARP. Well, I think you are absolutely wrong about that.

Mr. McLAUGHLIN of Michigan. The statement was made on yesterday by a gentleman from Peoria, a statement the like of which we had not heard before from anyone else, and to the effect that in his line of business there was actual delivery on at least one-half of these option transactions.

Mr. SHARP. I think that is true, but the transaction itself is made on wheat. If not, you might as well sell one commodity as another. What is the reason for dealing in wheat itself unless in the actual stuff?

Mr. MCLAUGHLIN of Michigan. I insist that it is not a deal in wheat at all, and that as further evidence of it when delivery comes to be made it may not be the stuff asked for at all.

Mr. SHARP. But it is.

Mr. MCLAUGHLIN of Michigan. Different grades of wheat can be delivered on any contract?

Mr. SHARP. At the difference in market price.

Mr. MCLAUGHLIN of Michigan. And such inferior grades may be delivered that the buyer does not accept them but takes the money, and that is what he intended to do when he made the deal?

Mr. SHARP. No, sir; please pardon me. You can sell No. 1 northern wheat——

Mr. MCLAUGHLIN of Michigan (interposing). And can make the man take No. 2 wheat?

Mr. SHARP. Yes, sir; but at the market difference.

Mr. MCLAUGHLIN of Michigan. Then when a man buys real estate he can be made to take a church on the corner over here, and you say he is actually dealing in farms?

Mr. SHARP. That is a different thing. There is a relative value there.

Mr. MCLAUGHLIN of Michigan. Money is all they have in mind, the difference between the price at one time and another.

Mr. SHARP. No. You can sell to a mill the same way. You can sell to Washburn-Crosby Milling Co. in that way. Or I might sell to a mill up my way a certain grade of wheat, and then send in a slightly different grade and we would make a discount, say, of 2 cents a bushel. I have been in the grain business for 29 years, and I have found that if ever there was a square bunch of people to deal with it is the grain men. If you will stop to consider the millions of dollars of business done, and, for instance, over the telephone, and that there has been very little trouble to result from it in the way of settlements, it is perfectly wonderful.

Mr. MCLAUGHLIN of Michigan. Because they pay the difference?

Mr. SHARP. Yes, sir.

Mr. MCLAUGHLIN of Michigan. I am not a lawyer; am an attorney but not a lawyer, and I do not know what the law is in regard to enforcing these contracts on the exchanges, but my impression is that they are considered of such a gambling nature that they are not enforcible in court, and they are enforced because it is a gentleman's agreement. Each one wishes to and does carry out his contract. If a man holds a seat on a board of trade and does not make good he forfeits his seat, but he does not subject himself to a penalty under the law, as I understand. Is it enforcible in law?

Mr. SHARP. I think it is where it is a clear case; yes, sir. You might have a little trouble with these parties, as I say, who have just stepped in and bought some grain on a margin, say, at 2 cents a bushel, and the market dropped suddenly, say 2 cents a bushel below his margin; I doubt whether that would be collectible in court. In the first place, he might not have anything. But if it is a deal between one grain dealer and another it is absolutely enforcible, the

same as though I might sell you 50,000 bushels of real wheat and get your name on a contract and the price went down 20 cents a bushel. If you are worth it I could make you take it.

Mr. McLAUGHLIN of Michigan. But you might have to take some inferior grade under the rules of the exchange?

Mr. SHARP. No; I would have to give you what you bought if you demanded it, or settlement could be made by way of the difference if another grade.

Mr. McLAUGHLIN of Michigan. If under the rules of the exchange it is enforced?

Mr. SHARP. No; I do not think that. But the volume of business is always so large that they can always get different grades at the difference in the market.

Mr. McLAUGHLIN of Michigan. Can you tell us the difference between a speculator and a manipulator? The other witness said you could do it, and we would like to have you do it.

Mr. SHARP. Well, I would like to tell you what I think it is.

Mr. McLAUGHLIN of Michigan. All right, go ahead.

Mr. SHARP. The manipulator is a man who is large enough and can control means enough to force the market the way he wants it to go to a certain extent.

Mr. McLAUGHLIN of Michigan. If I go in with $10,000 and use it in an effort to force the market and find I have not money enough, I am not a manipulator?

Mr. SHARP. No, sir; and you would be a small speculator before you got through.

Mr. McLAUGHLIN of Michigan. Then it is not the amount of money or the purpose that you have in mind; it is the result that determines whether he is a manipulator or not?

Mr. SHARP. I think so.

Mr. McLAUGHLIN of Michigan. Mr. Armour's name has been used—a man whom I understand has large means?

Mr. SHARP. Yes, sir.

Mr. McLAUGHLIN of Michigan. And sometimes deals on the board of trade. If he goes in and accomplishes his purpose of influencing the price largely to his advantage, he is a manipulator. If he does the same thing and fails and loses money, he is not a manipulator?

Mr. SHARP. No; he goes broke.

Mr. McLAUGHLIN of Michigan. That is true?

Mr. SHARP. He would go broke.

Mr. McLAUGHLIN of Michigan. The fact is that you can not tell the difference, can you?

Mr. SHARP. No, sir; you can not tell.

Mr. McLAUGHLIN of Michigan. You can not distinguish between the speculator and the manipulator, can you?

Mr. SHARP. The only two manipulators that I have in mind and that I can speak of now are Old Hutch, who tried to corner wheat, and George Phillips, who tried to corner corn.

Mr. McLAUGHLIN of Michigan. I remember very well of reading of Old Hutch. Did he win out or lose?

Mr. SHARP. He won and lost. Phillips did the same thing.

Mr. WILSON. Phillips lost everything he had, didn't he?

Mr. SHARP. Yes, sir; I think so.

Mr. TINCHER. Where did he live?

Mr. WILSON. He was an Iowa boy.

Mr. TINCHER. I am sure that he did not live in Chicago.

Mr. McLAUGHLIN of Michigan. Was Joe Leiter a manipulator or a speculator?

Mr. SHARP. I think he succeeded in being a manipulator at one time.

Mr. McLAUGHLIN of Michigan. He was a manipulator at one time and then he dropped back into the speculator class?

Mr. SHARP. Yes, sir.

Mr. WILSON. He personally lost between $7,000,000 and $8,000,000 on his speculations, didn't he?

Mr. SHARP. I think so. I think his career was that it was easy for him to buy this stuff and bust the market, but when he commenced to unload he could not find buyers fast enough.

Mr. TINCHER. I am wondering how he got his $7,000,000 or $8,000,000.

Mr. WILSON. And wasn't it because grain was delivered to him that he lost?

Mr. SHARP. I do not remember.

Mr. WILSON. I think that was it.

The CHAIRMAN. I believe that is all, Mr. Sharp. The committee is grateful to you.

Mr. SHARP. I wish to thank the committee.

The CHAIRMAN. We will now hear the next witness.

STATEMENT OF MR. F. W. KONEMAN, OF SIOUX FALLS, S. DAK.

The CHAIRMAN. Please state your business.

Mr. KONEMAN. I am interested in flour mills, and also in an elevator. The only time we use the hedge is in the fall when there is a shortage of cars, and while we have the chance to sell cash grain to arrive, yet the bid is generally on the basis of 10 to 20 day delivery, and it is sometimes 60 days before we get the cars. In those cases we use the option.

Mr. Chairman and gentlemen of the committee, that is about all the statement I have to make.

The CHAIRMAN. Any questions?

Mr. YOUNG. Did you ever find any transaction of that kind that you lost on both spot grain and on the option contract?

Mr. KONEMAN. Well, it is very seldom, if ever, that it happens. We only use the option until the point where we can get the car and sell the cash grain, when we take in the option.

Mr. YOUNG. That is all I wish to ask.

Mr. McLAUGHLIN of Michigan. Do you know the abuses existing on boards of trade?

Mr. KONEMAN. There are none that I know of.

Mr. McLAUGHLIN of Michigan. You think there is nothing existing to which a remedy should be applied?

Mr. KONEMAN. Well, I have no remedy to suggest, or I do not believe I want to discuss that part of it.

Mr. McLAUGHLIN of Michigan. I have asked some questions trying to learn the difference between a speculator and a manipulator, because we have been told that the operations of the manipulator ought to be controlled by law. And, of course, we are trying to find out what a manipulator is; do you know?

Mr. KONEMAN. Well, in my opinion, a manipulator is a man who influences the market unduly, makes it either go up or down further than it should, and who has enough money back of him to do it?

Mr. MCLAUGHLIN of Michigan. How could a law reach him?

Mr. KONEMAN. There is no way that I know of.

Mr. MCLAUGHLIN of Michigan. Manipulators are those who are usually successful in influencing the market unduly, and those who are unsuccessful are not called manipulators?

Mr. KONEMAN. Well, they are sometimes called fools when they do not succeed.

Mr. MCLAUGHLIN of Michigan. But that does not help us very much.

Mr. KONEMAN. No.

Mr. MCLAUGHLIN of Michigan. You can not give us a definition of a speculator or of a manipulator so that we can distinguish between them and pass a law to prevent the operations of the one and to permit the operations of the other?

Mr. KONEMAN. No, sir; I could not.

Mr. MCLAUGHLIN of Michigan. Do you see the necessity of any law whatever along the line we are considering now?

Mr. KONEMAN. Well, in my limited experience it is all right the way it is. At least I have never got hurt very badly.

Mr. MCLAUGHLIN of Michigan. Have you read the bills that are pending before the committee?

Mr. KONEMAN. No, sir; I have not.

Mr. MCLAUGHLIN of Michigan. That is all I wish to ask.

Mr. TINCHER. I understand that you have offered yourself as a witness before this committee, and the statement is that you are interested in one elevator and had used hedging at one period of the year by reason of the condition of car shortage?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. How much is the capacity of your elevator?

Mr. KONEMAN. About 20,000 bushels.

Mr. TINCHER. What future do you use when you use it?

Mr. KONEMAN. The nearest to the cash transaction.

Mr. TINCHER. You sell for future delivery an amount of grain equal to that which you have in your elevator?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. And you have cash bids on that wheat, too, as well as selling futures?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. So that some one, by introducing a bill here and doing away with futures entirely, would cause you to do away with futures and to deal in cash wheat only?

Mr. KONEMAN. Well, I do not believe we could pay the producer as much as we are able to pay him now, because of our inability to get the cars and take advantage of the spot price.

Mr. TINCHER. There would be a period, by reason of the car situation, that you think would work injury to the producers?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. You pay a commission when you indulge in this hedge?

Mr. KONEMAN. Of course.

Mr. TINCHER. And that comes out of your pockets?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. And you only do that by reason of your inability to get cars?

Mr. KONEMAN. Yes, sir; that is the principal reason.

Mr. TINCHER. When you ship wheat from your elevator at Sioux Falls you do not wait for that wheat to get to Chicago in order to get your money for it, do you?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. How do you ship wheat?

Mr. KONEMAN. Sometimes on bill of lading, but that is just to get an advance. Settlement is made when the commodity reaches destination.

Mr. TINCHER. You say sometimes you ship on bill of lading?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. Don't you always do it that way?

Mr. KONEMAN. No, sir.

Mr. TINCHER. If you do not ship on bill of lading, how do you ship?

Mr. KONEMAN. We bill it to the commission firm, and they sell it when it arrives, the next day, or whenever it arrives. We do not ship wheat out of Sioux Falls, but just corn and barley.

Mr. TINCHER. You can make out your bill of lading and get your money when you ship, can't you?

Mr. KONEMAN. I do not know whether we could or not.

Mr. TINCHER. When you ship it without bill of lading it is because you want to have it sold after it arrives; isn't that the case?

Mr. KONEMAN. No.

Mr. TINCHER. You do not want to sell it on track at your elevator?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. Well, say you would sell it on the track at the elevator, you can draw, and if there is a little difference they will settle that one way or the other after it gets to destination?

Mr. KONEMAN. Ordinarily we can draw in a way.

Mr. TINCHER. You have this option, that you can sell it on the track at elevator and make out bill of lading and they would meet that price?

Mr. KONEMAN. No; we can draw a certain percentage of the value of the commodity.

Mr. TINCHER. And you can consign it to the commission man and have it sold on arrival?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. Or you can keep it in your elevator and sell a future against it?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. You only indulge in selling futures to a limtied extent and for a very short period of the year?

Mr. KONEMAN. During that time about 75 per cent of the grain moves, when the congestion is on.

Mr. TINCHER. And that is the low time of year, ordinarily, for grain?

Mr. KONEMAN. Yes, sir; from October to along in February.

Mr. TINCHER. That is when the farmer is selling?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. That is when the price is generally kept down to the lowest point?

Mr. KONEMAN. Not always.

Mr. TINCHER. Has not that been your experience for a good many years, that that is the time when the prices are kept down on grain?

Mr. KONEMAN. No, sir.

Mr. TINCHER. It is generally higher around thrashing time?

Mr. KONEMAN. It is generally higher in the summer.

Mr. TINCHER. It is higher now than it was then. It is higher now than it was last year? I mean after the the boards of trade got to functioning in July.

Mr. KONEMAN. I don't think it is, because a year ago there was an established price.

Mr. TINCHER. I am not asking about a year ago. Did you use these options last fall?

Mr. KONEMAN. I am not in actual charge of the elevators. We have a manager for them.

Mr. TINCHER. You did not have to sell any options last year?

Mr. KONEMAN. I do not think he did. I think he is selling them now on corn.

Mr. TINCHER. You think he is selling options now on corn?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. Cash corn and future corn are practically the same price, aren't they?

Mr. KONEMAN. I think they are.

Mr. TINCHER. Is the car situation better out there now?

Mr. KONEMAN. Yes, sir. In fact, the Omaha division that we are located on was 350 cars short about 30 days ago, but I suppose it is better now.

Mr. TINCHER. Do you know, really, how it is now?

Mr. KONEMAN. No, sir.

Mr. TINCHER. Have you one share in this elevator?

Mr. KONEMAN. I own a one-half interest.

Mr. TINCHER. But you have another man who manages it and has control over it?

Mr. KONEMAN. Yes, sir.

Mr. TINCHER. Your business is now a farm loan business?

Mr. KONEMAN. It is now. I used to be in the grain business and used to work for Mr. Sharp.

Mr. TINCHER. You came here from Sioux Falls to appear before this committee?

Mr. KONEMAN. No, sir; I was in New York, and Mr. Sharp asked me to come this way on my way home.

Mr. TINCHER. You fellows were out on a little trip and you are giving us a little information as you pass by?

Mr. KONEMAN. That is true in my own case.

Mr. TINCHER. Well, I am rather glad that you came. That is all I wish to ask.

Mr. KONEMAN. I thank you.

The CHAIRMAN. Should the speculator be eliminated, as has been suggested, would that afford you an opportunity to hedge?

Mr. KONEMAN. Well, I do not know whether it would or not.

The CHAIRMAN. Who would take the other end of the hedge in that case?

Mr. KONEMAN. Well, I do not know that anybody would. I think the business would have to be handled on a larger margin if we could succeed in selling to the mills.

The CHAIRMAN. If you eliminate the speculator, who would be the to buy? Would the millers come in any buy?

Mr. KONEMAN. Yes, sir; I think the millers would; that the men who actually want to manufacture it would use it.

The CHAIRMAN. It would be rather a slow process, then, would it not?

Mr. KONEMAN. Yes, sir; it would.

The CHAIRMAN. In your opinion, would it be possible to hedge if the speculator were eliminated?

Mr. KONEMAN. Do you mean if options were done away with?

The CHAIRMAN. I mean if the speculator were eliminated from the operations of the exchanges, as has been suggested.

Mr. KONEMAN. Well, if the speculator were eliminated I do not think it would cut any figure in the price of grain.

The CHAIRMAN. I mean, would it be possible to hedge if the speculator were eliminated?

Mr. KONEMAN. I am not prepared to answer that question.

The CHAIRMAN. The manipulator must necessarily be a speculator, must he not?

Mr. KONEMAN. Yes, sir; it is pretty hard to draw a line, I think, showing where the one quits and the other begins.

The CHAIRMAN. That is all. Mr. Koneman, the committee is very grateful to you.

Mr. KONEMAN. And I wish to thank the committee.

The CHAIRMAN. We will now hear the next witness.

STATEMENT OF MR. WATSON S. MOORE, REPRESENTING THE DULUTH BOARD OF TRADE, DULUTH, MINN.

Mr. MOORE. I want to say that I am a member of the Duluth Board of Trade and also of other exchanges, and that I am here as the representative of the Duluth Board of Trade.

I have been a grain shipper for 30 years. There is comparatively little so-called speculation on the Duluth Board of Trade, but the volume of future trading in that market is heavy. The prices and trading are, of course, influenced by the general market movements, both at home and abroad. The major portion of the trading in futures on the Duluth Board of Trade is:

In selling or buying for account of the farmer or country dealer.

Buying from the country dealer or commission merchants and selling to shippers, millers, or exporters by the terminal elevators.

Buying of cash wheat and futures by the local millers and representatives of eastern millers and the selling of futures as a hedge against all or part of said purchases.

Buying and selling by traders, or spreaders, who hedge their purchases or sales in other markets. Spreaders are traders who make a specialty of studying relative values between markets, and the relative values between the different varieties of wheat and between the different futures in the different markets and trade accordingly. These traders are not manipulators, but trade on their judgment as to the relative values of the various factors mentioned, and trade almost entirely in the futures. They are, therefore, an import factor in stabilizing prices and checking sometimes what might be other-

wise evil results of speculators and render service fully commensurate with the profits they receive.

There has been as much as 20,000,000 bushels of wheat held at one time in the Duluth elevators, and as much as 75,000,000 bushels in the terminal elevators of the country, and there is now over 40,000,000 bushels so held and more in mill elevators, mill stocks, and country elevators, most of which is ordinarily hedged in futures. These futures are bought by speculators, by millers against flour sales, by exporters against sales made abroad, and by producers who could not afford to carry their grain themselves, but believing in higher prices—when they sold their actual grain, purchased an equivalent of futures—which this year they were able to do at a discount. Some producers lost by this operation and sold out their futures when the general deflation spasm struck the country. Others held on and have been able to make from 30 to 40 cents a bushel by reason of the advance and because of the opportunity afforded by future trading.

Trading in futures makes for a free and open market. All the world knows the price—the producer, the banker, and the consumer. This would not always be the case if future trading were discontinued and the business forced into the hands of a few large concerns. The system of future trading gives an opportunity to the man with small capital to enter the business, and if future trading is discontinued this class would likely be eliminated, as it now is pretty generally from the large businesses of the country.

Future trading makes it easier to finance the crops. The banks will loan most generously at lower rates of interest and on smaller margin than they would if future trading was discontinued. They know all the time the cash value of their collateral and can collect at any time. Wheat is almost the same as cash when it is off the farm.

The discontinuance of future trading at the present level of prices would surely cause a panic in the grain trade. Bankers would require very heavy margins on their loans against wheat. Grain concerns moving the grain for export would find greater difficulty in financing the operation and would therefore require a larger profit to take care of possible risk of loss.

There is some trading in futures which can not be classed as legitimate, and it is difficult to get at and correct such trading. It is also difficult to enforce the eighteenth amendment, but the country is not going to repeal the act on that account. The Government and exchanges should work together to correct these abuses which have grown out of illegitimate trading. To destroy such a useful business agency because it is abused by some people would be a great mistake. To discontinue future trading would certainly mean the destruction of one of the most useful pieces of economic machinery ever set up to do business. The exchanges working alone have corrected, and continue to correct, abuses as they appear. All exchanges, I think, now have a corner rule, and have almost eliminated this serious bane of future trading. The Capper bill would, to all practical purposes, eliminate future trading.

To illustrate (referring to paragraph B, sec. 1, illustration):

In the Duluth market to buy 10,000 bushels of cash wheat in the Duluth elevators and sell 10,000 bushels to an eastern miller or exporter, the shipper trades ordinarily in 60,000 bushels. He buys

10,000 bushels of wheat from the terminal elevator operator and sells the elevator operator in exchange 10,000 bushels of the most active future in the Duluth market. The shipper then buys the 10,000 future in the Duluth market and sells 10,000 of the most active future in Chicago. Most sales of cash wheat to millers and exporters in the United States are based upon a Chicago future, Chicago maintaining the most active future market and most convenient for the majority of the trade. The Duluth shipper then sells to the eastern buyer, who in turn sells him 10,000 bushels of the most active future in Chicago in exchange. Sixty thousand bushels traded in in all to sell that 10,000 bushels of cash wheat, but, owing to quick telegraph service, all parties are at practically little risk from market fluctuations, and the shipper is willing to render this service whenever he thinks he can see half a cent profit in the transaction, and often for less, especially when the volume is larger.

To summarize, future trading is the most important factor in stabilizing prices. It enables the producer to get more money for his product than he would otherwise. It enables the consumer to secure his food for less than he otherwise would. It secures the middleman's service for a less profit because it eliminates risks which prevail in handling of other commodities. It opens the door of business opportunity to the man of small capital. It makes the grain business the safest business a bank has. It takes care of the movement when the flow of grain from the farm is the heaviest, and carries the grain until the demand overtakes the supply. It carries the surplus of one crop over to meet the deficiency of the next crop at home and abroad.

The general trade certainly should have no objection and would be glad to see any unbiased Government commission investigate the operation of the exchanges, the use and abuse of future trading, and would certainly endeavor to put into force suggestions which were practical and which would make the system which has been found so useful, and able to render still greater service to the country.

The CHAIRMAN. Any question, gentlemen?

Mr. YOUNG. Suppose there were no exchanges, what would be the movement of grain?

Mr. MOORE. There would be, I think, concerns of large capital and large financial resources who would buy the grain. They would be very careful to study world conditions and to get upon the very rock bottom. There would be a few concerns of smaller capital that would take smaller amounts and less risk in the business. Those concerns, having to have larger investments, would have to have larger profits. There would not be the same opportunity for general information to reach the producer, nor for the consumer to check the operations of those large concerns such as now possible on the exchanges.

Mr. YOUNG. Do you have in the grain trade exchanges in foreign countries operating similarly to the exchanges in this country?

Mr. MOORE. Yes, sir.

Mr. YOUNG. Assuming that the exchanges in this country were put out of business, what kind of power would be left in the hands of the exchanges of foreign countries as relates to the price of grain in this country? What kind of power would they have over fixing the prices of grain that this country would export?

Mr. MOORE. Well, those foreign exchanges undoubtedly would be governed to some extent by the supply and demand in the world. Foreign exchanges do not deal in futures so generally as is the case in this country, except as to the Winnipeg exchange in Canada.

Mr. YOUNG. The thing I have in mind is this: I do not know so much about the grain trade as the commodity in my section of the country is cotton, and 65 per cent of that commodity is an export proposition. In England they have their cotton exchanges. We have the same trouble as to abuses in the cotton exchanges that you probably have in your grain exchanges, but I am not familiar with grain exchanges. But if the cotton exchanges in this country were put out of commission and could not do business, England and other European countries, being consuming countries of that commodity more than is our country, wouldn't this give them a tremendous power over fixing the value of the cotton that we produce in this country which power they do not have now?

Mr. MOORE. That I should think would be true also as to wheat, unless they would see what the market had lost and would set up the same sort of machinery more generally abroad. The foreign markets to a certain extent use our market in hedging.

Mr. YOUNG. Here is another point I want to clear up if I can: Using cotton as an illustration, let us assume that you destroy the function of the exchanges and that they can not operate and that the ultimate consumer of that cotton is the manufacturer who makes it into cotton cloth. They are few in numbers as compared with the great mass of producers of cotton. It strikes me that there would be the danger that those few could organize overnight and the producer can not organize, and he would be at great disadvantage as the case applies to cotton. Would such a condition exist in reference to grain if the exchanges were not permitted to operate?

Mr. MOORE. Do you mean that the millers might combine?

Mr. YOUNG. Yes; are they so many in number that they could not readily reach an overnight combination in event that the present method of handling grain through the exchanges were discontinued?

Mr. MOORE. Of course there is such a possibility, but the millers so far as I have been able to observe have not manifested such a disposition.

Mr. YOUNG. Would there be the opportunity for such a thing if the present system were abolished?

Mr. MOORE. I do not know whether they would have the moral force to resist the temptation or not.

Mr. YOUNG. Are they so many in number that such an organization could hardly be possible?

Mr. MOORE. Well, I would not undertake to say it was not possible.

Mr. YOUNG. Take the manufacturers of cotton goods, and they are few in number as compared with the producers of cotton?

Mr. MOORE. I think the flour millers are just as bright as the cotton manufacturers.

Mr. YOUNG. And being fewer they could do it?

Mr. MOORE. Yes, sir.

Mr. YOUNG. Would you see any danger of it if the present machinery were destroyed?

Mr. MOORE. I can see the possibility of it happening, and I do not think it would be a good thing if it did happen, because whenever

any such interest goes into a combination they usually issue about as much common stock as they have capital stock and then undertake to make that common stock sell at the same price, and the producer and the consumer pays for it.

Mr. YOUNG. Under the present method of doing business through these exchanges—say I am a grain producer and I have 50,000 bushels of wheat on my plantation, and I choose to hold that wheat myself and sell futures for a certain month against it as a hedge—under the present method of doing business does it happen or not that I as a farmer may lose on both my spot wheat and my hedge contract?

Mr. MOORE. It is only possible that you might lose the differences; so far as the general movement of the market up or down is concerned you would not lose. This is the way you might lose: For instance, as Mr. Crosby explained to you, they have been paying a very high premium over spring wheat this fall. I noticed on yesterday that for the highest grade it is 22 cents over the option. It is possible that that premium might be lost through your overstaying the market. That premium, after Argentine and Australian wheat came on the market, might disappear, and there might be a demand for wheat for future use, although there was at the time an opportunity to sell at that premium. At the same time, if you sold a distant future, it might go down so much. In other words, the pressure all this year has been for wheat for immediate use, and it might disappear and the June price come down to the price at which you sold the future, and it would push the world's general level of prices down for three or four or six months ahead. That is the way it would be possible for you to lose on your spot wheat and on your future.

Mr. YOUNG. Is there anything in the method of doing business through these exchanges whereby they fictitiously bring about anything by speculation that would do that thing?

Mr. MOORE. It can only be temporary. My notion of a manipulator is that of a speculator who has gone wrong and then tries to force the thing, and when he attempts it all laws of trade, of supply and demand, are against him, as well as the rules of the exchanges. And the rules of the exchanges have been repeatedly called into effect to discipline such a man, a man who has carried on such a venture, unless the man broke his neck before they could act.

Mr. YOUNG. I only know about grain from reading the newspapers, because my section is not a grain country. But I do know about cotton. I have noticed quotations that apply both to grain and cotton, and it is a thing I personally do not understand how it can exist. What is spot wheat worth now—about $1.95?

Mr. MOORE. Around $2 in New York on yesterday.

Mr. YOUNG. Future wheat is quoted at about $1.60, isn't it?

Mr. MOORE. No, sir; the most distant future was quoted on yesterday at about $1.75, and then you must put on the price at the seaboard, which makes it about $1.91 or $1.92.

Mr. YOUNG. As to cotton and wheat the way I have noticed the figures, the market has gone along for a period of weeks with future quotations way belong the actual spot sales. What is the occasion for that?

Mr. MOORE. The distant future will ordinarily represent world conditions. For instance, in May wheat from this country will come in competition with wheat from Australia and the Argentine and possibly from India. At the present time there is no competition with the United States from any source. You will notice the exports to other countries for the last six months have been practically all from this country, and we have been limited as to price to what the continental countries and the United Kingdom have been willing to pay. My point is there that they have paid a higher premium for wheat, which is reflected in the quotations for immediate shipment, a higher price than they are willing to pay for May and June shipments, when the Southern Hemisphere will be our competitors.

Mr. YOUNG. What causes the spirit of unrest among the people who produce these raw materials—wheat, cotton—is that nearly every little town has a blackboard. Take my little town, and you will see the future quotations on cotton $25 a bale actually under the spot sale. Without going deeply into it, the average fellow who produces cotton thinks somebody is manipulating the stuff he has on hand.

Mr. MOORE. Well, there is usually a legitimate answer, and I think that given on wheat would apply to cotton, although I am not familiar with cotton.

Mr. MCLAUGHLIN of Michigan. Have you read the bills pending before the committee?

Mr. MOORE. The Capper bill?

Mr. MCLAUGHLIN of Michigan. Is that Mr. Tincher's bill?

Mr. TINCHER. It is one and the same bill really.

Mr. MOORE. Yes; I have read that bill.

Mr. MCLAUGHLIN of Michigan. You have made a statement similar to the statement made by other witnesses, that evil practices, abuses, exist, but no one has yet described what they are. You go further and say that the Government and the exchanges ought to cooperate for their correction. Cooperation by the Government means the enactment of laws. We are up against the question whether or not we can enact a law. Will you describe those abuses that you think we can correct by law, and tell us what they are, and what law we can pass to correct them?

Mr. MOORE. That does not necessarily mean the enactment of a new law. It might mean activity of officers under the present law.

Mr. MCLAUGHLIN of Michigan. Well, tell us about that?

Mr. MOORE. For instance, if there are very sudden and violent movements in the market price, why, every violent quotation certainly takes on public interest. Then it seems to me that the law officer in that particular city or the cities of the country——

Mr. MCLAUGHLIN of Michigan (interposing). What law officer?

Mr. MOORE. Probably it would be your district attorney or some such man to see that there is nothing going on in violation of the United States statutes, or, if it is a matter under a State law, it would be some State officer. There are people who will make a lot of wild statement about such and such an activity and those statement might be true or not true.

Mr. MCLAUGHLIN of Michigan. Do you know of anything being done now in violation of any law?

Mr. MOORE. Not at the present time, I do not know of anything. And I do not know of it as happening at any time, but I do know

that things have happened on exchanges that have not been in accord with just and equitable principles of truth.

Mr. McLAUGHLIN of Michigan. What are they?

Mr. MOORE. Runs, corners, and overtrading.

Mr. McLAUGHLIN of Michigan. What is overtrading?

Mr. MOORE. Trading too much, and through exchanges they have disciplined their members for such actions.

Mr. McLAUGHLIN of Michigan. What is considered "too much"?

Mr. MOORE. That, I should imagine, would depend upon the conditions at the time. If there was a large volume of wheat in stock at a particular point, then a larger amount of trading would not be overtrading. If the stock was small that would be a governing factor. As I stated, the exchanges have shown a disposition to correct their evils. But it often helps an exchange when the law officer takes notice of what seems to be—but which may not be—an activity in the public interest on an exchange.

Mr. McLAUGHLIN of Michigan. What law could the district attorney lay hold of under the conditions you speak of?

Mr. MOORE. It might be under the common law of gambling.

Mr. McLAUGHLIN of Michigan. You say it might be. Do you think the common law of gambling would reach that?

Mr. MOORE. I do not see why it should not. It often happens that if there is anything of that sort going on or if a man is suspected of such a thing the very activity of the law officer corrects the evil and straightens things out.

Mr. McLAUGHLIN of Michigan. The law officer does not get very far in his activities unless there is some law behind him on which he can stand. What is that law on which he can stand?

Mr. MOORE. Isn't there a law against unfair practices? A man can not put another out of business by selling below him—by selling at unfair prices, I mean.

Mr. McLAUGHLIN of Michigan. The Federal Trade Commission is authorized to investigate and to learn whether there are any unfair practices indulged in between men in business, and, if so, such a man is directed to desist. But the Federal Trade Commission think if the indulgence in that practice is general, then there is nothing unfair about it—that they all partake in it and that nobody gets an advantage of anybody else. It is not much of a law in my judgment.

Mr. MOORE. Of course, if the law officer does not find any abuse or if a Government commission does not find any abuse, then I shouldn't think there was one.

Mr. McLAUGHLIN of Michigan. This practice is open to anyone on your exchange if he chooses to indulge in it, isn't that true?

Mr. MOORE. No; the opportunity to a man is open to him to steal, but if he steals he will be punished. So if a man violates a rule of the exchange you can not convict him before he commits the act.

Mr. McLAUGHLIN of Michigan. If anyone commits a crime would you make it unlawful to violate the rules of an exchange?

Mr. MOORE. I do not see how it would be harmful. We want to obey our own rules, which we subscribe to and are sworn to obey.

Mr. McLAUGHLIN of Michigan. That would be delegating a power by the Government to individuals to determine what crime is.

Mr. MOORE. I do not know as to its being proper public policy.

Mr. MCLAUGHLIN of Michigan. We are trying to get at something that is practiced here now. You are a little hazy, like the rest of the witnesses. We are looking for something concrete. If we do not find something of that kind we will have to quit. We are told that there are certain definite abuses that could be forbidden and corrected. I am free to say that the most of the witnesses who have come here have simply confused us. Not one of them has pointed out a remedy that can be applied. Nor has any one of them pointed out definitely what the abuses are.

Mr. MOORE. Well, I have said that an abuse on the exchange is over-trading. I have said that another abuse that may happen is undue manipulation, attempting to corner the market.

Mr. MCLAUGHLIN of Michigan. We can not write a law——

Mr. MOORE (interposing). I am only stating the abuses. I do not know how you would correct them. That is the business of some one else. These are recognized, and the exchanges have made very substantial progress in correcting the abuses, because so far as corners are concerned there have not been anything like the old corners. where they would run the price up 50 cents or $1 or $2 a bushel, and where they would ruin men. We have not had anything like that for years.

Mr. MCLAUGHLIN of Michigan. If a man with unlimited means should go on your exchange and offer to buy or sell to the limit of his means and it carried everybody else off their feet would you stop him from doing it?

Mr. MOORE. I think I should begin to look into his case.

Mr. MCLAUGHLIN of Michigan. Would there be a rule of your exchange under which you could stop him?

Mr. MOORE. I am not familiar with the wording of the rule, but in our own exchange they have taken up cases where there was suspicion of over-trading and corrected the situation.

Mr. MCLAUGHLIN of Michigan. He has not bought more than he is able to buy and pay for, and he has not sold a bit more than he is willing to take, perhaps, and if that is the case how is he overtrading?

Mr. MOORE. If he has not bought more than he is able to pay for and willing to pay for, and it would not be a violation of the governmental statute against cornering the food supply, why, then, that would seem to be a proper transaction. But I think under the United States laws a man can not go in and corner any of the food suply without suffering a penalty. Isn't that true?

Mr. MCLAUGHLIN of Michigan. I do not know that there is any such law as that, or how it would be enforced if there were such a law.

Mr. MOORE. I think they did it in the butter and egg business. They went after the man who cornered the potatoes.

Mr. MCLAUGHLIN of Michigan. One man alone was it, or a combination of men?

Mr. MOORE. I forget, as to the case of the potatoes, how it was, but I know it was done.

Mr. VOIGT. There is no rule on your exchange that prevents a man from buying or selling any quantity of grain so long as he has the money to take up the deals, is there?

Mr. MOORE. And he carries it on in a proper way according to the rules of the exchange.

Mr. VOIGT. If he carries the deal on like any other deal then there is no such thing as overtrading on your exchange?

Mr. MOORE. Yes; there may be men who are undertaking an operation and it would develop that they have not the financial ability to carry it through.

Mr. VOIGT. My question assumed that they had the means to carry on their trades.

Mr. MOORE. For instance, they make that man take all he contracts for, which is in the interest of the producer. And if he is wrong and has to sell it out later at less price I think it is to the benefit of the consumer. I think they have a rule on the Chicago Board of Trade that a man must not only take his warehouse receipts in the elevator but the stuff on the track that has not been unloaded. I have forgotten the phraseology of the rule, but there is a committee there that states what is a fair price for the stuff, so that he could not have an unusual exaction there.

Mr. VOIGT. You have no rule that limits a man to a certain amount of trading?

Mr. MOORE. No; the conditions would have to come in there. If there were a large volume of grain in store upon which to base the transactions, then it could be heavier than if there were a smaller amount of stuff.

Mr. VOIGT. Suppose a man with plenty of money went on your exchange, through a broker, and sold 50,000,000 bushels of a certain grain. You have not a rule against that, have you?

Mr. MOORE. I am not sure; but in our own exchange if a man were operating to that extent the officials of the exchange would take notice of it to see whether there was anything injurious to the exchange or to the public interest in it.

Mr. VOIGT. If he had the money to carry out the deal, would they endeavor to stop it?

Mr. MOORE. For instance, if he sold 50,000,000 bushels of grain for delivery, the stuff would not be available to deliver.

Mr. MCLAUGHLIN of Michigan. In these exchanges they sell over and over again?

Mr. MOORE. But they are constantly settling up.

Mr. MCLAUGHLIN of Michigan. But these gentlemen tell us this hedging is for actual delivery?

Mr. MOORE. They are if the contract goes to its final consummation.

Mr. MCLAUGHLIN. Yes; if it does.

Mr. MOORE. Yes. But the great majority of the contracts are closed up prior to that time, as explained in the illustration I gave you. In other words, to make it a little clearer in your mind, future trading is more an insurance against loss in an advance than it is for an actual delivery of the property, although that must be contemplated in the transaction.

Mr. MCLAUGHLIN of Michigan. I do not care whether it is right or wrong, for the purpose of my question, but I do take issue with the man who says that these hedges are actual transactions in grain. They may be necessary—and I am not saying they are not—and they may be proper, and there may be nothing wrong in the world with them, but what I do take exception to is their taking the transaction as meaning an actual delivery of the commodity.

Mr. MOORE. They are not in the physical grain.

Mr. MCLAUGHLIN of Michigan. You are the first gentleman who has been willing to admit it.

Mr. MOORE. They are in the nature of an insurance; but if the man goes to the end of the transaction, then the physical property must appear.

Mr. MCLAUGHLIN of Michigan. I think you are right about it, and it seems to me that that may be necessary. But they are not transactions in grain at all. They are just insurance policies, because if somebody happens to call for the grain and it is delivered, then it may occur; but the rest of them do not contemplate doing it, and they are carrying on, probably, a proper and necessary transaction, and I am inclined to think they are.

Mr. MOORE. That is our claim.

Mr. MCLAUGHLIN of Michigan. So at least there is that situation, and there is much testimony in the hearing to incline one to that belief.

Mr. MOORE. Yes, sir.

Mr. TINCHER. You said that there was some trading in futures which can not be classed as legitimate, and you evidenced a willingness on the part of the grain exchanges to cooperate with the Government to eradicate those evils?

Mr. MOORE. I certainly do.

Mr. TINCHER. Your objection to the Capper bill, as you term it, is that it only permits three sales, whereas you say a man ought to be allowed to have six sales in a properly hedged transaction?

Mr. MOORE. Well, I would have to qualify that, because those six times only run around one transaction, and we may have a hundred that day—and we hope we will—in the business.

Mr. TINCHER. It does not make any difference how many you have; it only runs around one transaction three times. You can have, under the Capper bill, a million deals on actual grain, only you would be permitted to sell it simply three times as a hedge under the Capper bill, three times in each case.

Mr. MOORE. I would exceed my privilege or exhaust my privilege under the Capper bill when I acted that way through this trading.

Mr. TINCHER. No; that would only be on one 10,000-bushel deal, and on another 10,000-bushel deal you would have the right, I understand, under the Capper bill to trade three times the amount of that one transaction as well.

Mr. MOORE. I understand that I can only trade three times.

Mr. TINCHER. Oh, no. Do you mean you would have to make it on any one transaction and then be limited to three times that amount?

Mr. MOORE. Yes. I can only make three future trades against a cash transaction.

Mr. TINCHER. Do you mean in the whole year?

Mr. MOORE. Yes, sir.

Mr. TINCHER. You term it the Capper bill, and that is proper, because he introduced it in the Senate, and I introduced it in the House, and they are identical. But the bill I introduced in the House does not state that. The fault you find with it is that you are only permitted to deal three times in the commodity—say, wheat—which

you actually deal in, and then it can be dealt in three times more. You want it six times. You say it is necessary, in describing a transaction here, that it should be six times?

Mr. MOORE. That does not help me out. I would only make $50 and deal in it three times. That would not keep me in New York long.

Mr. TINCHER. You could make 10,000 deals. Why is it necessary for all these transactions to constitute a hedge?

Mr. MOORE. Because it is very convenient. If I bought 10,000 bushels of wheat from a country dealer, or from a commission man, and I sold it to an eastern miller without the use of futures——

Mr. TINCHER (interposing). That does not come in this bill at all, because the actual wheat is there. You have bought it and are going to deliver the actual wheat to the miller?

Mr. MOORE. Yes, sir.

Mr. TINCHER. That does not come in under this at all. The Capper bill says you can hedge three times, or buy or sell three times the quantity without any additional tax. I do not believe you have read and understood that bill or you would not make the objection you make to it. You evidently have understood if you entered into one 10,000-bushel wheat deal and carried it on, then all during the year you would be subject to a tax. That is not the fact. We have contemplated that there might be a lot of commission men who would want to handle more than one 10,000-bushel deal of wheat. There was no idea of putting a limit of 10,000 bushels of wheat on a man.

Mr. MOORE. I can only have two other contracts?

Mr. TINCHER. Pertaining to that one 10,000-bushel contract?

Mr. MOORE. Yes.

Mr. TINCHER. You can have that one contract and two insurance contracts, as you call them.

Mr. MOORE. Then I would have to confine my operations right to the country man who sells to the elevator and not buy from the terminal elevator, and I would sell to the miller, and I would exhaust my right to deal.

Mr. TINCHER. Oh, no. That is dealing in actual wheat. That would have nothing to do with this.

Mr. MOORE. But each time there is a 10,000-bushel cash deal there is a 10,000-bushel future deal.

Mr. TINCHER. The reason you take that view, I suppose, is you are in the habit of handling 100,000,000 bushels of wheat a year——

Mr. MOORE (interposing). I would like to get that habit.

Mr. TINCHER. Under the Capper bill you could not only sell that but sell 300,000,000 bushels of wheat a year. The reason we put that provision in the bill at the time we were working on it in Kansas last year—and there are parties who are here and who will either confirm or deny it later on—we were told that every bushel of wheat raised in America was dealt in 14 times before it was thrashed. And I make this statement subject to confirmation that every bushel of wheat produced in America this year has now been dealt in 40 times; that the people who have made those trades have made profits, and that those profits come off the producer of the grain and the consumer of the grain. Though in an effort to get rid of trading in

futures, which can not be classed as legitimate, we attempted in this measure to place a limitation on that trading, I think if you will examine the Capper bill it will not at all stand for your construction, because it would be vicious if subject to the construction you have evidently placed upon it. I do not know who has prepared this manuscript that you have?

Mr. MOORE. You do not differ from me as to its phraseology?

Mr. TINCHER. Oh, no; it is the same as my bill.

Mr. MOORE. Every time we make a contract we make a future sale. In this you call a future contract connected with the cash as a part of the transaction?

Mr. TINCHER. And the one that you delivered wheat on would not be a future.

Mr. MOORE. The only fellow I deliver wheat to is the miller. I deal twice, with two different fellows on the exchange in making a part of my trade, and I deal with two different fellows in Chicago in making my trades there. Do you see?

Mr. TINCHER. I will frankly say to you that you have about the most complicated hedge described in your manuscript that I have ever heard of. It was not the purpose in preparing the Capper bill to destroy hedging.

Mr. MOORE. That is our daily business.

Mr. TINCHER. You have a regular round Robin Hood's barn proposition here.

Mr. MOORE. Two of these trades will be cut down if the man buys in Chicago. Then there will be only four trades made.

Mr. TINCHER. I think you could get along without three or four of these trades.

Mr. MOORE. Then I have to increase my profit. It is because of this convenience that I am able to handle wheat at a quarter of a cent a bushel.

Mr. TINCHER. Is that the pretty generally used method of hedging by grain men?

Mr. MOORE. The man who sells from the country does not have to have as many as that. I think there are men here who are in the shipping business who will tell you that that is the way they do. For instance, take your Southwest people selling for export, and the Kansas City man sells at Chicago, and they sell to another exporter and then the wheat is sold back in Chicago, and millions of bushels of wheat do not come east of the Mississippi River.

The CHAIRMAN. I understand that you are engaged in the exporting business?

Mr. MOORE. No, sir; in the shipping business. We buy at a western terminal and take it to an eastern terminal.

The CHAIRMAN. If speculation is eliminated would it be possible to hedge? You are engaged in the hedging business?

Mr. MOORE. Oh, yes; I would sell direct to the miller or direct to the exporter, but there have been times for periods of 60 days when the miller has not been in the market and sometimes even six months that there was not an exporter in the market, and then I would say I did not want to buy wheat, unless I could buy it at a very low price; not until the miller appears or somebody else, and somebody must carry that grain in the interim.

The CHAIRMAN. If speculating is eliminated dealing will be very uncertain?

Mr. MOORE. Yes, sir; very uncertain.

The CHAIRMAN. I believe that is all. The committee is very grateful to you.

Mr. MOORE. I am very much obliged to the committee.

The CHAIRMAN. The committee will now stand in recess until 2 o'clock p. m.

(Thereupon, at 1.15 o'clock p. m., the committee recessed until 2 o'clock p. m.)

AFTER RECESS.

STATEMENT OF MR. HARRY J. BERRY, REPRESENTING INDIANAPOLIS BOARD OF TRADE, INDIANAPOLIS, IND.

The committee met pursuant to recess. Hon. Gilbert N. Haugen (chairman), presiding.

The CHAIRMAN. You may proceed with your statement.

Mr. BERRY. I am representing the Indianapolis Board of Trade, and am also a grain dealer and operator of country elevators which deal directly with the producer.

I am here to ask great consideration of this committee before urging any legislation that would violently change the present method of handling grain, which in my opinion is the most economical yet devised for handling any material in volume.

My active interest in grain consists in buying from farmers and doing a general merchandising business, buying and selling; and with our present knowledge of how grain should be handled, I could not give these producers the best service but for the possibility of hedging in a broad market.

I realize that this committee is confronted with lots of requests for legislation to relieve conditions which exist, and which I know exist. But I have one exhibit here that I would like to give you, showing how the farmer benefits from the hedging system.

(The exhibit referred to by Mr. Berry will be printed in full at the end of Mr. Berry's testimony.)

I am operating about 26 country elevators. During the past corn crop, beginning possibly as early as the middle of September, I bought grain from the farmers and that continues down until to-day. I have something like 82,000 bushels of corn, and the average price paid the farmer was 86½ cents a bushel.

On the present oats crop, beginning possibly in late May and continuing down to date, I have bought about a million bushels of oats from the farmer and on the average paid 68¾ cents a bushel.

That is a direct example of how the farmer benefits through the possibility of hedging. That grain was hedged mostly in the Chicago market.

Mr. PURNELL. Right in that connection, assuming that you had not had the hedging privilege, what price would you have probably have paid the farmer for his corn as against 86½ cents as you did pay?

Mr. BERRY. I would not have bought the corn at all until it was ready for delivery, until some general merchandising basis had been established.

Mr. PURELL. Would you have refused to buy it because of lack of funds or for lack of storage space or what?

Mr. BERRY. No; but because I could not buy it with safety.

Mr. PURNELL. Then the farmer, in your judgment, got the benefit of your hedge?

Mr. BERRY. He got the benefit of the hedge.

Mr. PURNELL. Otherwise his product would have been backed up on his farm?

Mr. BERRY. It would have been there or he would have sold it to me during the present level of values, which would probably be 30 cents a bushel less.

Mr. PURNELL. Let us assume that you would have bought it just for the sake of getting your idea as to the range of price?

Mr. BERRY. Yes.

Mr. PURNELL. And that you did not have the hedging privilege; would you have bought it for more or less than 86½ cents?

Mr. BERRY. I would not have bought it except on an absolutely safe margin, which would have been probably 20 cents a bushel less, anyhow.

Mr. PURNELL. The same thing applies to oats?

Mr. BERRY. The same thing applies to oats.

Mr. PURNELL. And to wheat?

Mr. BERRY. Also to wheat.

Mr. PURNELL. You do not deal in cotton?

Mr. BERRY. No; I do not deal in that.

The CHAIRMAN. That is, you would have had to buy on a 20 cents margin in order to come out?

Mr. BERRY. In order to make me safe, Mr. Haugen; in fact, my company would not permit me to do it, anyhow.

The CHAIRMAN. Would you mind going into more detail as to that transaction?

Mr. BERRY. Certainly.

The CHAIRMAN. You bought the grain when?

Mr. BERRY. I started to buy it probably in September.

The CHAIRMAN. And the grain was delivered when?

Mr. BERRY. Whenever they delivered—any time to January 1.

The CHAIRMAN. That is your future delivery?

Mr. BERRY. That is my future delivery.

The CHAIRMAN. How much time did you give to delivery?

Mr. BERRY. Up until January 1.

The CHAIRMAN. You hedged on January futures?

Mr. BERRY. I hedged on January delivery, but the December option was alive, and I hedged mostly in December.

The CHAIRMAN. How much was corn worth for December delivery?

Mr. BERRY. In December?

The CHAIRMAN. In September or October?

Mr. BERRY. I can not recollect now, but the highest price I paid the farmer was $1.35 a bushel.

The CHAIRMAN. The Chicago future was about $1.38, was it not?

Mr. BERRY. It was higher than that when I bought this high-priced corn. The price went down very sharply after that, and I think that the bulk of my purchases were on the basis of a dollar a bushel.

The CHAIRMAN. It cost how much to deliver?

Mr. BERRY. The rate from our State to Chicago is 12½ to 14 cents a hundred.

The CHAIRMAN. What would be the price?

Mr. BERRY. $1.20 Chicago; it would average about $1.11.

The CHAIRMAN. So, the farmer sold at $1.38, or, say, $1.40, which which would net him $1.29 net profit.

Mr. BERRY. Understand, these prices I give you are what I paid the farmer at our stations, not delivered in Chicago.

The CHAIRMAN. But you deduct 11 cents from Chicago, as I understand.

Mr. BERRY. Yes.

The CHAIRMAN. The opportunity then was for the farmer to sell, at a price of $1.40 future December delivery?

Mr. BERRY. Yes, sir.

The CHAIRMAN. The farmer had the opportunity to sell corn on December delivery at $1.29?

Mr. BERRY. He did.

The CHAIRMAN. Well, if he did not avail himself of that opportunity, what would it have netted him in December?

Mr. BERRY. If he had delivered any time in the last——

The CHAIRMAN (interposing). December.

Mr. BERRY. In December it ran from probably 65 down to 55 cents.

The CHAIRMAN. That was a loss of 45 cents?

Mr. BERRY. I have not got the figures, something like that; yes.

The CHAIRMAN. The facts are that if he had not had the opportunity of hedging or dealing in futures he would have had to sell corn for 55 to 65 cents?

Mr. BERRY. Yes, sir.

The CHAIRMAN. With the hedging privilege he received $1; is that your contention?

Mr. BERRY. That is my contention.

Mr. PURNELL. Did you hedge all of the 82,000 bushels?

Mr. BERRY. Yes; at one time.

Mr. PURNELL. Did you deliver the 82,000 bushels on the hedging?

Mr. BERRY. I did not deliver any of it; it simply acted as an insurance. I will explain right in that connection that our company operates big corn mills, and that is the reason we accumulate white corn in Illinois, so that when the demand comes we can supply the mills. That corn will never go to Chicago; it will go to those mills for grinding, and as they sell the product, then I purchase the future against it, so that one offsets the other, and the corn goes into consumption.

Mr. PURNELL. What have you to say, as a practical grain man, as to the effect on the market price of speculative transactions on the board by men who have no grain to sell, who do not expect to have any delivered to them, and who only bet on the rise and fall of the market? What effect does that, if any, have upon the stabilization of prices?

Mr. BERRY. In my opinion, speculation is necessary to make a staple market.

Mr. PURNELL. You mean a purely speculative deal?

Mr. BERRY. Purely speculative. I say that for the reason that I had to sell this grain to somebody, and if the speculator had not been there to have bought it I do not know who would have taken it.

Mr. WILSON. Would you have bought the grain?

Mr. BERRY. I would not have bought the grain if I had not found some way to sell it.

Mr. PURNELL. You distinguish, of course, between a speculator and a manipulator of the market?

Mr. BERRY. Yes and no. I want to say, in the first place, that I understand the purpose of this legislation is to take care of the farmer. A man who manipulates grain takes an awful hazard unless he does it in, near, or during the current monthly delivery. For instance, a manipulator, if he desired to do any manipulation, would regard it or conclude it in November for the December option and throughout the month of December. Now, if he tried it, for instance, for the three or four months ahead he would pretty nearly make a market for the entire grain crop of the United States.

Mr. PURNELL. Is it possible to manipulate the market?

Mr. BERRY. I do not know how that is.

Mr. PURNELL. What is your judgment about it?

Mr. BERRY. I suppose if a man had enough money, he could manipulate the market, just like he could commit lots of sins and pay for them.

Mr. PURNELL. I think that is one of the important things that wants to be understood in connection with this legislation. There is a supposition that men with large means may manipulate the market and bid down the prices or bid them up at their will, sell and resell over and over a number of times a thing they do not own, all to the detriment of the producer and the consumer.

Mr. BERRY. Of course, you understand that when a man does all the selling some day he has got to deliver the grain or buy it in, one of the two, and he can not get out at will; and the same methods he used to depress the market, when he tries to get, would have, theoretically, at least, the effect of restoring the market or putting it up.

Mr. PURNELL. I confess all I do not know about the business would fill a very large book, and I am wanting information for myself.

Mr. BERRY. That is the general theory. Take, for example, some group of men who conclude to buy, oh, say, 15,000,000, 20,000,000, or 25,000,000 bushels of May corn. That would, in all probability, put the market up, because there is not enough people to sell that corn at present prices. When they do that they make a market for the whole crop of the United States at those prices. The speculator is not a detriment to the farmer.

Mr. PURNELL. Do you know how the producers feel about this question of hedging—and I am not trying to pass any legislation although I represent what I regard as the finest agricultural district in the United States. [Laughter.]

Mr. BERRY. I am neutral.

Mr. PURNELL. I do not want to be a party to any legislation that could be characterized as class legislation, but I am just wondering how the producer, the man who raises the actual stuff, feels about that particular question of the hedge.

Mr. BERRY. The fellow who did not sell, I guess, thinks it is due to somebody's manipulation that he has lost money. But I do not know why the live-stock producer and the woolgrower, the hide dealer, and everybody else would not feel the same way. Cotton has suffered. Naturally, when people suffer losses they want to know if there is anybody causing it.

Mr. PURNELL. I think that is the thing we want to find out, whether there is any particular thing we can do to take out of it that which is bad or objectionable and leave in it that which is good.

Mr. BERRY. I confess I do not know of any general improvements or any improvements that could be made in the present system.

Mr. PURNELL. You think the speculation is necessary?

Mr. BERRY. I do.

Mr. PURNELL. And that it results in better prices for the producer and a more stabilized market?

Mr. BERRY. It stabilizes the market. I do not know that it makes any better prices, except that most speculators have been bulls the last four years and had the effect of putting the market up.

Mr. PURNELL. It does, according to your testimony in the corn case, for instance, from your example?

Mr. BERRY. Yes; in this case they guessed wrong.

Mr. TINCHER. I understand you sold from December futures in corn?

Mr. BERRY. Yes, sir.

Mr. TINCHER. How much did you sell?

Mr. BERRY. Approximately the same amount I bought, as near as I could tell how much I bought.

Mr. TINCHER. You told how much you bought?

Mr. BERRY. Yes.

Mr. TINCHER. When did you make those future sales?

Mr. BERRY. When I bought the grain from the farmer.

Mr. TINCHER. You did not do it until you bought the grain?

Mr. BERRY. No, sir.

Mr. TINCHER. When you bought the farmer's corn on the cash market that day?

Mr. BERRY. No; I did not; because there was no price for the new crop delivery during the month of September, except a future market.

Mr. TINCHER. That is what I mean.

Mr. BERRY. Yes.

Mr. TINCHER. You sold futures?

Mr. BERRY. I did.

Mr. TINCHER. And then you bought corn based on that sale of futures?

Mr. BERRY. Turned around the other way, and bought the corn first, and then sold the future, because I did not know how much I was going to buy.

Mr. TINCHER. And you say by reason of that future market you are able to pay more for the corn? If corn had gone up to 50 cents a bushel instead of down, would you be willing to say to the farmer—you say they are the beneficiary when trading on futures—would you be willing to say to him, "You are the sufferer from my dealing in futures"?

Mr. BERRY. Yes; I could not help it.

Mr. TINCHER. There has been such a thing known as corn going up instead of down, has there not?

Mr. BERRY. Yes.

Mr. TINCHER. What I do not understand is, if the man who finally paid for that corn took the corn, what basis is there for saying that, were it not for this fictitious trade that you are frank enough to say you never expected to carry out——

Mr. BERRY. This is an insurance measure; yes.

Mr. TINCHER. The farmer would have suffered?

Mr. BERRY. He would in this case.

Mr. TINCHER. I do not understand why you say that. What basis is there for saying it?

Mr. BERRY. I know what the market was then and I know what it is now.

Mr. TINCHER. You traded in futures, and you made some money by doing it?

Mr. BERRY. Not necessarily; I made it on the futures and lost it on the cash.

Mr. TINCHER. You did not give to the farmer what you made out of the transaction. It was a good side of the market to be on this year, was it not?

Mr. BERRY. I was not on either side, Mr. Tincher, I was in the middle. I bought and I sold.

Mr. TINCHER. I understood you sold December options at a time when they were not receiving corn at all—was not in the market?

Mr. BERRY. But I had bought the corn from the farmer as I sold. If in September I bought 10,000 bushels of corn from the farmer, I sold 10,000 bushels December against it.

Mr. TINCHER. Now I understand you. You bought actual corn for future delivery?

Mr. BERRY. I did.

Mr. TINCHER. And, as a matter of insurance to you, you sold future options. This year, by reason of the fact that corn went down in price, you come before this committee and cite that as an example of how your trading in futures resulted in a direct benefit to the farmer?

Mr. BERRY. I do.

Mr. TINCHER. If corn had gone up 50 cents a bushel would you have been here to explain that it resulted in direct injury to the farmer?

Mr. BERRY. Mr. Tincher, it would not have been necessary, because the farmer would not have complained.

Mr. TINCHER. He would not have complained?

Mr. BERRY. He would not have complained.

Mr. TINCHER. You say this legislation is calculated for the benefit of the farmer. I do not know what basis there is for that. I had understood it was calculated for the good of the country, for the trade; but I suppose you got the impression that the legislation was intended to benefit the farmer, because all of the witnesses who came from the exchanges have come here and testified that the real beneficiary of the trading in futures, while he does not indulge in it, is the farmer, and you got that impression that this was for the benefit of the farmer from their testimony. You are here purely in the interest of the farmer?

Mr. BERRY. I am here in the interest of myself, like every other man is.

Mr. TINCHER. I had misunderstood you. I thought you did not want this thing disturbed because it would be so hard on the farmer.

Mr. BERRY. I said that I did not want the present method of handling this grain violently disturbed, because I thought I was better able to give service to the farmer and handle his grain on a narrow margin—I did not say that, but that is what I mean.

Mr. TINCHER. I will tell you my reason for asking the first question, which you did not answer. You told how many bushels of corn you bought. The reason I wanted to know how many bushels you sold for delivery on future market was to know how often it was necessary for you to sell a bushel of grain in order to properly hedge it. You can see the materiality of my question if you have read the bill pending before this committee.

Mr. BERRY. I have read the bill; and so far as I am personally concerned, Mr. Tincher, I would have no objections to that feature of the bill, but I doubt if I would get anybody to buy the corn, in the first place. I doubt if there would be a wide market for me to sell on, because some one has to either speculate or take the other end of the transaction, when I want to sell. It would not hurt me personally, because, frankly, I am not a speculator.

Mr. TINCHER. You do not hedge in the manner that the witness testified just before luncheon. When you buy 10,000 bushels of corn you do not deal in 60,000, but you only sell another 10,000 bushels.

Mr. BERRY. I understood his statement, I deal the same way. In this case it was not necessary.

Mr. TINCHER. You say you deal the same way. Tell us how you dealt in this corn.

Mr. BERRY. I will give you another illustration——

Mr. TINCHER (interposing). Let us take the corn illustration; that is the one which was so beneficial. How many bushels of December corn did you sell?

Mr. BERRY. I sold the same quantity I bought.

Mr. TINCHER. How many times did you sell it?

Mr. BERRY. I only sold it once, except that I did change it over from December to May, because——

Mr. TINCHER (interposing). It was the same transaction?

Mr. BERRY. The same transaction.

Mr. TINCHER. Did you sell it at more than one place?

Mr. BERRY. One place, that is all.

Mr. TINCHER. You had the transaction on the Chicago Board of Trade?

Mr. BERRY. Yes.

Mr. TINCHER. And you just sold it once. Why do you say that you sold it six times like he sold his? He dealt with Chicago and New York in several places.

Mr. BERRY. His transaction was a complex one and this is much simpler.

Mr. TINCHER. That is what I thought, that this is more simple. Now, to carry on your business, if that was a satisfactory way to carry it on, if you are permitted to sell futures to the extent of three times what you contemplate delivering, it would afford you sufficient hedging facilities, would it not?

Mr. BERRY. I say it would, in my particular business, providing I could get somebody to buy it; you will have to have a buyer as well as a seller.

Mr. TINCHER. Somebody eventually has to pay for this corn and use it some way in order to have a buyer, do they not?

Mr. BERRY. Yes.

Mr. TINCHER. You think that the fact that a crop of wheat could not be sold but 3 times before it was thrashed, and then only 3 more times after it is thrashed, instead of 14 times before thrashed, and 40 times after thrashing, would hinder trade; is that your idea?

Mr. BERRY. I can not answer that specifically, nor do I know it was sold 40 times. I have not seen any statistics of that nature. But so far as that being detrimental to the producing section, if that is what you are driving at, I do not see that it has anything to do with it.

Mr. TINCHER. You think, then, that probably the more men who take a portion out of the product that never handled it or never expected to handle it, or never do handle it, between the time it leaves the producer and eventually is consumed, that the better it is for the producer of it?

Mr. BERRY. No; I do not think that. I think that where somebody makes a lot of money out of it that somebody else loses; so one offsets the other.

Mr. TINCHER. In your transaction you made money, did you not?

Mr. BERRY. I have not made it yet.

Mr. TINCHER. As I understood you, just five minutes ago, on this corn deal you said you did make a profit?

Mr. BERRY. No; I never said that, Mr. Tincher——

Mr. TINCHER (interposing). I misunderstood you.

Mr. BERRY (continuing). I never said that; in fact, I still have most of the corn on hand.

Mr. TINCHER. I thought you had sold it?

Mr. BERRY. I sold futures, Mr. Tincher; I sold futures against the cash.

Mr. TINCHER. You do not know, then, but what it will result in a loss to you?

Mr. BERRY. I do not know; I do not think it will.

Mr. TINCHER. There should not be any mysterious transactions here. What do you mean by saying you do not know but what it will result in a loss to you? You have got the future sold; you have got your insurance.

Mr. BERRY. Chicago May corn, contract price, is based on, for instance, No. 2 corn. The corn I bought from the farmer is not No. 2 corn; it is corn that is damp, and some of it may spoil, and if it dries out I have to take the shrink, and just exactly what that will be I can not tell you.

Mr. TINCHER. So far as the transaction is concerned, the fact that you were permitted to hedge on a future market—is that this play like you got the corn you sold—you would have had a profit?

Mr. BERRY. Say that again.

Mr. TINCHER. It is a mathematical certainty you would have had a profit?

Mr. BERRY. Some profit; I expected to.

Mr. TINCHER. Somebody has to pay for the commission on that hedging you did there?

Mr. BERRY. Yes.

Mr. TINCHER. That would come out of it before you would have any profit?

Mr. BERRY. That is one-eighth cent.

Mr. TINCHER. But it aggregates a good many million dollars, they say, in the course of a year?

Mr. BERRY. It is only one-eighth cent at a time, however.

Mr. TINCHER. They would have to sell a bushel of corn a good many times before it took the bushel of corn for commission, would it not?

Mr. BERRY. Yes; about four hundred times on the curb market.

Mr. TINCHER. Forty times would only take about one-tenth?

Mr. BERRY. Yes.

Mr. TINCHER. However, if you make a profit on your transaction you would deduct that expense before counting a profit?

Mr. BERRY. It is so small we do not consider it.

Mr. TINCHER. You do not claim to represent any one before the committee except yourself? You have not been sent here by any organization?

Mr. BERRY. No; I have not been sent here.

Mr. WILSON. You may have said before I came in what you paid the farmer for this 10,000 bushels of corn.

Mr. BERRY. I bought the total from the time I started to buy the new crop until now at an average of 86½ cents.

Mr. WILSON. You paid him cash for the corn?

Mr. BERRY. Yes, sir.

Mr. WILSON. Suppose you had not been able to sell that corn for speculation, we will say, on the Board of Trade of Chicago or elsewhere, would you have paid as much for the corn as you did?

Mr. BERRY. No; not by considerable.

Mr. WILSON. I understand that has been covered.

Mr. TINCHER. You say you paid him for the corn. You did not pay him for the corn until you got it, did you?

Mr. BERRY. No; when I got it.

Mr. TINCHER. You bought it in September and paid for it when delivered?

Mr. BERRY. When it was delivered.

Mr. DICKINSON. To what extent is hedging participated in by the elevators down in your territory?

Mr. BERRY. Well, I do not know, except that some of the—I do not know to just what extent. I would say about half. Some of them do not hedge.

Mr. DICKINSON. How do the other 50 per cent that do not hedge make the grain business a sure thing?

Mr. BERRY. They do not.

Mr. DICKINSON. Then you think that they are running their business at a greater peril than you are?

Mr. BERRY. I do.

Mr. DICKINSON. From the report of the Federal Trade Commission I find that from 349 elevators reporting, 293 report that they do no hedging at all, making a percentage of 83.95 per cent of the elevators in your territory that do not hedge.

Mr. BERRY. Say that again.

Mr. DICKINSON. I say that the percentage of elevators in the territory in the State of Indiana that do not hedge is 83.95 per cent. You think that many men or that many elevators are running their business at a greater risk than you are running yours by not using the hedge?

Mr. BERRY. No; and I will tell you why: Grain houses represented by the terminal markets have outbid every day nearly for grain, and those men who do not want to speculate can sell the grain for deferred shipment, and then it remains for the man who buys it in the terminal market to hedge that grain, which is one and the same thing.

Mr. DICKINSON. Then, if no hedging was permitted by the elevator man operating the country lines, he could sell on a to-arrive basis and have the same margin that you have without running any greater risk than you do?

Mr. BERRY. He could not sell because the terminal market man would not, in all probability, buy it.

Mr. DICKINSON. Is not that entirely a conclusion on your part?

Mr. BERRY. No; it is the practice.

Mr. DICKINSON. As a matter of fact, you get bids each day, or offers, for the amount of grain you want to buy or want to ship?

Mr. BERRY. Theoretically, yes.

Mr. DICKINSON. What percentage of those bids are from legitimate consumers and what percentage from speculative dealers?

Mr. BERRY. I do not quite get the application; I may be a little dense.

Mr. DICKINSON. Do you not get bids from men who are actual consumers of corn and wheat?

Mr. BERRY. I do.

Mr. DICKINSON. And they also get bids from men who are purely speculative dealers or dealing in futures, do you not?

Mr. BERRY. Yes; if you mean hedgers.

Mr. DICKINSON. What percentage of your bids are from legitimate consumers of the products?

Mr. BERRY. About 5 per cent.

Mr. DICKINSON. You do not have many actual consumers of your products out there, then?

Mr. BERRY. We do. But they are not ready to buy just when I am ready to sell. Most of the consumers in corn, especially, will only take one or two cars at a time.

Mr. DICKINSON. Where do you ship the most of your corn to?

Mr. BERRY. I ship it to the mills.

Mr. DICKINSON. They are consumers of corn, are they not?

Mr. BERRY. They are; and I export it, and I ship to dealers where they have to sack it, or something of the sort, which requires separate operation.

Mr. DICKINSON. Do you very often ship any corn to the purely man of the commission and speculative business?

Mr. BERRY. Oh, at times, when their prices are higher than anybody else.

Mr. DICKINSON. Is not that the exceptional transaction in your business?

Mr. BERRY. It is for me, particularly because the rates do not work to advantage to Chicago; that is the big reason.

Mr. DICKINSON. Would the fact that they could not hedge on the market or sell futures in the market take these actual consumers of your product out of the market?

Mr. BERRY. No.

Mr. DICKINSON. They would still be here to buy your corn and buy your oats?

Mr. BERRY. Yes.

Mr. DICKINSON. And you still think that it is in order to bring you as the seller of the farmer's produce, in connection with the man that actually uses this produce, to maintain all of this overhead machinery—the speculator, the manipulator, the boards of trade, and that organization—in order that you may have a ready market for what you want to sell?

Mr. BERRY. You are putting a lot of conditions on there which I confess I can not follow exactly. But any market that only adds, say, a total of 1 cent per bushel on grain and has that terrific overhead, I can not see how it is a special detriment to the producer or the consumer.

Mr. DICKINSON. For instance, here is the Chicago Board of Trade. It must take something to carry that business on up there, does it not?

Mr. BERRY. It does.

Mr. DICKINSON. Who pays the expense?

Mr. BERRY. Those who trade there.

Mr. DICKINSON. Then where do they secure their resources in order to pay that expense—dealing in your commodity, do they not?

Mr. BERRY. Yes.

Mr. DICKINSON. And that expense is taken out of the price before it is made to you, is it not?

Mr. BERRY. Yes; usually.

Mr. DICKINSON. And you take it out of the farmer before you buy his products, do you not?

Mr. BERRY. I think I testified before that it is such a small item per bushel that I do not consider it.

Mr. DICKINSON. Suppose they manipulate the price on about 10 cents, do you think that is a small item?

Mr. BERRY. A 10-cent fluctuation is quite a fluctuation.

Mr. DICKINSON. You were in the business on September 1, were you not?

Mr. BERRY. I was.

Mr. DICKINSON. You were in the business on the 30th of September. were you not?

Mr. BERRY. I was.

Mr. DICKINSON. Do you remember the fluctuation of the price in Chicago from September 30 until October 1?

Mr. BERRY. Very distinctly.

Mr. DICKINSON. What bump did it take?

Mr. BERRY. I think there was around a 10 cents a bushel fluctuation in cash corn; it may have been a little more than that.

Mr. DICKINSON. As a matter of fact, it was 22 cents a bushel, was it not?

Mr. BERRY. Possibly.

Mr. DICKINSON. Do you think that there was any possible condition took place on the 30th day of September to the 1st day of October that will warrant the Chicago Board of Trade reducing the price of corn 22 cents a bushel?

Mr. BERRY. I would rather turn it the other way. I said nothing would warrant putting it up 22 cents a bushel.

Mr. DICKINSON. It did not do that; it went down.

Mr. BERRY. It went up in September—or do you think it was the proper price?

Mr. DICKINSON. Cash corn started in September at what price?

Mr. BERRY. I have not got the figures here, but you have; you can read it.

Mr. DICKINSON. It did not vary 8 cents during the entire month of September; and it did drop 22 cents the 1st day of October.

Mr. BERRY. That is because the September option expired, is it not?

Mr. DICKINSON. I do not know why it is. But there is a reason for it somewhere, in my judgment.

Mr. BERRY. That is just what I am telling you. If you are trying to make the point that that September option—the advance in it—was detrimental to the producer; is that your idea?

Mr. DICKINSON. No; I am making the point of the decline on October 1 was detrimental to the producer.

Mr. BERRY. Then, why not give the speculator some credit for the advance in September?

Mr. DICKINSON. I can not find there is any comparative advance between September 1 and September 30, as compared with the decline in October.

Mr. BERRY. Well——

Mr. DICKINSON (interposing). Which leads me to believe that there is some influence which came in there which was absolutely abnormal.

Mr. MCLAUGHLIN of Michigan. Are you sure there was not an influence to keep it up as long as it was kept up?

Mr. DICKINSON. I can not testify as to that, Mr. McLaughlin. The facts are that prices were fluctuating to some extent, but there was no fluctuation as compared to the October 1 drop.

Mr. BERRY. Do you know that the cash prices in other markets were not nearly so high as they were in Chicago?

Mr. DICKINSON. I know that the fluctuation in Kansas City September 30 to October 1 was only 15 cents in cash corn. In the December future it was only 5 cents—this is the average price—that in the Chicago corn the difference in the fluctuation of 27 cents and in the December future it was 8 cents. In my judgment there was something abnormal about the Chicago market because of that extreme fluctuation at that particular time.

Mr. BERRY. Possibly the Chicago man could tell you about that; I confess I can not give you the reason.

Mr. DICKINSON. What line of elevators do most of the hedging?

Mr. BERRY. What line of elevators?

Mr. DICKINSON. Yes; what kind of elevators—the individual elevator, cooperative company, or commercial line elevator?

Mr. BERRY. I do not know. I would say, though, that mostly the commercial line elevators, because they are usually men who have had the experience and find they have to do it for safety's sake.

Mr. DICKINSON. Then you think that the cooperative elevators and the individual elevators do not protect their business by hedging, and that they are running their business at greater peril than the commercial line elevator?

Mr. BERRY. I think they are operating at greater peril. When you ask me what they do so far as hedging is concerned I would not be able to give you an intelligent answer, because I do not know.

Mr. DICKINSON. What length of hedge do you usually carry?

Mr. BERRY. As far off as I can get it—six months if I can get it.

Mr. DICKINSON. You believe in the long side?

Mr. BERRY. I do.

Mr. DICKINSON. You do not believe that the present market machinery is such that the man who wants to buy and the man who wants to sell can be brought together——

Mr. BERRY (interposing). I do not——

Mr. DICKINSON (continuing). Without this expensive overhead being maintained?

Mr. BERRY. Well, I agree with you, except the word "expensive."

Mr. DICKINSON. Do you think that fluctuations are expensive?

Mr. BERRY. It has nothing to do with the overhead, as you call it in the market; it is a matter of the buyer or seller losing money, perhaps, or making money, but is not an account to be charged as overhead.

Mr. DICKINSON. What kind of a market do your producers want?

Mr. BERRY. What kind of a market?

Mr. DICKINSON. Yes.

Mr. BERRY. They want a high one. [Laughter.]

Mr. DICKINSON. Do they want a steady market or a fluctuative market?

Mr. BERRY. They want a steady market.

Mr. DICKINSON. What kind of a market do you want?

Mr. BERRY. I like a high one.

Mr. DICKINSON. Do you want a steady or a fluctuating market?

Mr. BERRY. I like it fluctuating.

Mr. DICKINSON. You like a fluctuating market?

Mr. BERRY. Yes.

Mr. DICKINSON. In other words, you buy for the margin, you mean?

Mr. BERRY. Sure—just like every man in business does, or he would not be there.

Mr. DICKINSON. Then, you believe that the machinery should be maintained in order to permit the man who is in the grain business to have a fluctuating market to get the greatest margin possible?

Mr. BERRY. Your conclusions are hardly in conformity with the facts, as I understand it.

Mr. DICKINSON. Let me have your answer.

Mr. BERRY. I said I personally liked a fluctuating market.

Mr. DICKINSON. Yes—then, do I understand that you believe in maintaining this present marketing system on account of the fact that it does lead to a fluctuating market?

Mr. BERRY. Not necessarily; no.

Mr. DICKINSON. Are you afraid if we were to change this marketing system we would get too great a fluctuation?

Mr. BERRY. I am afraid I could not handle the volume of business, and would therefore have to make a trade on a much bigger margin if I could not hedge.

The CHAIRMAN. We thank you, Mr. Berry.

STATEMENT OF MR. C. G. ANDERSON, ABERDEEN, S. DAK.

Mr. ANDERSON. My name is C. G. Anderson; address, Aberdeen, S. Dak. I am manager of the Farmers' Union Grain Co., which is a cooperative farmers' elevator company. I might state that we have a line of six elevators which belong to these farmers. The total storage capacity is about 185,000 bushels of grain, and during the thrashing season the grain comes in from the hands of the farmers quite rapidly.

We handle at each elevator from 5,000 to 10,000 bushels a day, and it would be impossible for us to put that actual grain into the market at that time without a loss if we had no way of selling immediately when we buy the grain. It takes from 4 to 10 days to get our grain to market. We could buy enough in 4 days to cause us considerable financial loss if we could not market the grain in some way. It would be impossible to mark it to arrive, so we found by experience, and it is possible to sell futures against this grain as fast as we buy it.

Then, on account of the rise and fall in the market, the farmer may change his mind as to whether he wants to sell then or sell later, and we give them the privilege of storing grain in our elevators. We sometimes find a condition then arising when we want to keep our elevators open that we are overshipped on grain, and we ship out the stored grain; in which case we buy options to protect ourselves against a rise in the market, and we use the future trading altogether and keep a balance sheet of purchases and sales and balance it every day.

Mr. MCLAUGHLIN of Michigan. What do you mean by being overshipped on grain?

Mr. ANDERSON. If the farmers, as they have done, haul in their grain and, we will say, store 100,000 bushels in our elevators, and do not sell their grain, we are obliged to ship out to make room for more; and we ship out grain that does not belong to us, in which case we will be in position to buy that grain when the market goes up.

Mr. MCLAUGHLIN of Michigan. You have not bought that grain yet?

Mr. ANDERSON. No, sir.

Mr. MCLAUGHLIN of Michigan. What price do you pay?

Mr. ANDERSON. We do not put any price on it; we sell it on the market and buy an option on the market, and so we are neutral.

Mr. MCLAUGHLIN of Michigan. You pay him when he wants his money?

Mr. ANDERSON. Yes, sir.

Mr. MCLAUGHLIN of Michigan. You pay him the market price?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. You do not buy hedges when you buy for immediate delivery?

Mr. ANDERSON. I don't know what you mean by that.

The CHAIRMAN. I mean where you buy grain, pay for it, and ship it out immediately.

Mr. ANDERSON. We can not get it to market immediately, and we sell the grain until the shipment reaches the market, and when the shipment reaches the market we immediately buy back hedges.

The CHAIRMAN. Is that the general practice?

Mr. ANDERSON. Yes, sir; it is with us.

The CHAIRMAN. Do you not receive bids to sell on arrival?

Mr. ANDERSON. We do, but they are not in line always.

The CHAIRMAN. They generally are?

Mr. ANDERSON. No, sir; they generally are not. My experience is if we sell a car of wheat to arrive and that car of wheat is a little off grade, and we send it to the man who is to get it, we only have the one man to deal with, and he can fix his discounts on that car of grain, whereas if we sell the futures and ship the car of grain into the market where there are 10 or 12 men to buy, we get a better price, resulting in a higher price to the producer.

The CHAIRMAN. But do you sell on sample?

Mr. ANDERSON. We sell on sample on the grain exchange.

The CHAIRMAN. Where does your grain go?

Mr. ANDERSON. Mostly to Minneapolis. We ship it to Chicago and St. Louis.

The CHAIRMAN. Without hedging you would have to cease storing entirely, would you not?

Mr. ANDERSON. We might and we might not.

The CHAIRMAN. You would not have the capacity, would you?

Mr. ANDERSON. It would not be advisable to store, because we might be obliged to ship that grain out. We had an experience with that when future trading was prohibited during the war time.

The CHAIRMAN. Have you capacity to store?

Mr. ANDERSON. About 185,000.

The CHAIRMAN. You could not store beyond that?

Mr. ANDERSON. No.

The CHAIRMAN. And it takes you about how many days to fill it?

Mr. ANDERSON. Ten thousand bushels to each elevator, or 60,000 bushels a day, would not take very long to fill our elevators.

The CHAIRMAN. And when your elevators were filled you would have to stop storing?

Mr. ANDERSON. Yes, sir; stop taking grain at all.

The CHAIRMAN. I am familiar with the facts, but I am asking these questions in order to get it in the record. You receive the grain from the farmer, and you ship it out?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And you buy for futures?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. Whenever the farmer is ready to sell to you, you cash your hedge?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And pay the farmer the going price on that date?

Mr. ANDERSON. Yes, sir. It has worked to his advantage.

The CHAIRMAN. That is, the speculation of the farmer?

Mr. ANDERSON. In other words, if the farmer wants to use his money and take the chances on the spring price, he must sell his grain

and receive the cash and have the use of the money and receive the going price whenever he is ready to sell.

Mr. ANDERSON. I do not give him the money on that grain. He does not get his money for that grain; he just leaves the grain with us.

The CHAIRMAN. He does not; but if he sells, if he hedges and buys futures——

Mr. ANDERSON (interposing). We buy the futures.

The CHAIRMAN. Under this transaction you have the money instead of the farmer?

Mr. ANDERSON. Yes, sir; and it is paying 8 per cent interest.

But we had an experience during the war time. We were shipping, and we had an experience that we were being overshipped, and we did not feel like selling the grain until the farmers sold it, and we put it in store in Minneapolis. Then it was difficult to get it out of store and get it on the market; more difficult than to get it out of our elevators onto the market, and the possibility that we could not were less than if it were in our own elevator, and we had quite a difficult time getting the grain marketed when we wanted to market it. We have to market our grain when the farmer wants to market his.

Mr. TINCHER. You did not need any hedge on this stored grain this year?

Mr. ANDERSON. We did not, but we did use it—we did, too, because some of that was shipped out when December wheat was selling at $1.45 or $1.50, and sometimes less than that, and we bought the futures, and now it is up to $1.70 or better from the March wheat at the present time. We changed over to March. If we had sold when it was down and had not fought against it we would have had a loss—that is, the elevator company. We do not know but that it may go back up in price again; we do not think it will.

The people who financed us are very particular to know whether we are protected on this grain that we buy or not, and we never had any trouble getting financial assistance.

Mr. PURNELL. It is your contention that the farmer gets just as much benefit from the hedge as if he made it himself?

Mr. ANDERSON. Yes, sir.

Mr. PURNELL. When you make it?

Mr. ANDERSON. Yes, sir; we are farmers, because we are a cooperative company and whatever we make is for his benefit.

The CHAIRMAN. Do you have a paid-up terminal?

Mr. ANDERSON. Yes, sir; $58,250.

The CHAIRMAN. You are incorporated under the State laws?

Mr. ANDERSON. Yes, sir; of South Dakota.

The CHAIRMAN. What grades are deliverable on these contracts?

Mr. ANDERSON. Well, No. 1, No. 2, and No. 3.

The CHAIRMAN. At a premium or discount?

Mr. ANDERSON. A regular fixed discount. No. 1 Northern is the contract; No. 1 Red spring wheat, I think, can be applied at a certain discount.

The CHAIRMAN. Is it No. 2 grade?

Mr. ANDERSON. Yes, sir; I think it is.

The CHAIRMAN. No. 1 is not?

Mr. ANDERSON. No. 1 or No. 2, either.

The CHAIRMAN. You have a certain grade, have you not?

Mr. ANDERSON. Yes.

The CHAIRMAN. Which is contract grade?

Mr. ANDERSON. Yes. I have never delivered any on contract.

The CHAIRMAN. How many grades of deliverable on the contract you speak of?

Mr. ANDERSON. I think there are three or four.

The CHAIRMAN. You are not certain about that?

Mr. ANDERSON. I have the rules at home, but I could not give them offhand. Our grain has been very light in quality. The heaviest we have is No. 3 this year, excepting Durum, which is No. 1 and No. 2.

The CHAIRMAN. Do you think you have three or four grades?

Mr. ANDERSON. Yes, sir; I do.

The CHAIRMAN. What exchange are you operating on?

Mr. ANDERSON. Minneapolis.

The CHAIRMAN. They have nine grades at Minneapolis?

Mr. ANDERSON. Yes.

The CHAIRMAN. But you are not familiar with them?

Mr. ANDERSON. I could not tell offhand, although I have it at home if I need to refer to it.

The CHAIRMAN. That is a very important factor, is it not?

Mr. ANDERSON. It has never bothered me any yet.

The CHAIRMAN. Are you in favor of the exchanges fixing the differences, and, in your opinion, should it be commercial differences or should it be fixed differences?

Mr. ANDERSON. I would rather have the commercial differences.

The CHAIRMAN. What do you say about the number of grades? Would you be in favor of limiting the grades?

Mr. ANDERSON. I would not have any less than there are, which are perfectly satisfactory to me.

The CHAIRMAN. For instance, Chicago has 22 grades and Minneapolis has 9 grades. Which would you prefer?

Mr. ANDERSON. I presume nine would be enough.

Mr. WILSON. How would you transact your business if it were not for these exchanges?

Mr. ANDERSON. I do not know. I tried it that way, but I prefer not to do it. If I did not have the exchanges, I would go into some other business.

Mr. WILSON. was just wondering, listening to your testimony here, how the elevator concerns around the country would transact their business if it was not for the exchanges.

Mr. ANDERSON. We would have to hunt up an actual buyer for the wheat, and we would have to get in touch with some miller or some mixing house or some one who actually used the grain for some purpose or other to buy our grain, which would be quite difficult.

Mr. WILSON. If a farmer came to you with 10,000 bushels to sell, before you would buy it you would want to know where you could sell it, would you not?

Mr. ANDERSON. I would then; I would have to find a buyer.

Mr. TINCHER. I notice in this Federal Trade Commission report that this question of hedging in futures is prevalent in those States to a considerable extent.

Mr. ANDERSON. Yes, sir.

Mr. TINCHER. Indiana, 43.05 per cent do not; in the great State of Michigan 95.85 that do not trade in futures. Then in Wiscon-

sin 96.97 do not trade in futures. You just feel sorry for those fellows, do you?

Mr. ANDERSON. Yes, sir; I do. [Laughter.]

The CHAIRMAN. Thank you, Mr. Anderson. We will now hear Mr. Peck.

STATEMENT OF MR. EDWARD P. PECK, OMAHA GRAIN EXCHANGE, OMAHA, NEBR.

Mr. PECK. My name is Edward P. Peck. I represent the Omaha Grain Exchange at Omaha, Nebr. We are not a hedging market; do not do any hedging in our market zone. We are a large primary market. We receive around 65,000,000 bushels of actual grain each year—that is, this last year—and we feel that it is essentially necessary in the conducting of our business to have a wide hedging market. You can not have a wide hedging market and take care of the primary receipts and distribution without there is a speculator. The speculator is the balance wheel that enables the terminal elevator man to place his hedges and eventually distribute his grain to the different sections that require it.

I operate, and have done so for some years, an elevator of a million and a half capacity, and it is necessary in accumulating this grain to place the hedges, because by hedging it that is the only collateral I have got to go to a banker to get money on. I could not borrow money without I had that collateral of hedging.

Then we are able to distribute that grain from the different primary markets to the sections that need it in different periods of the year. Grain is not thrown on the market all at one time; it is taken care of and distributed as it is required. It may be wheat that goes to Minneapolis for milling; it may be wheat that goes to Galveston and the South and the Eastern ports for export.

I think I have stated as near as I can what our business is there. If there are any questions which you would like to ask, I would be glad to answer them.

Mr. TINCHER. If you had in your elevator a million and half bushels of wheat, you would have some little collateral to offer the banks without offering a future contract sale?

Mr. PECK. I would not have been able to get the money to put that grain in there if I had not been able to hedge it.

Mr. TINCHER. What is the bank's real security when you borrow money from the bank on grain in that elevator?

Mr. PECK. In my integrity.

Mr. TINCHER. And then you have one other thing; what is that?

Mr. PECK. The actual wheat in the elevator.

Mr. TINCHER. I understand, but assuming you put it there. I understood from your first statement that perhaps the main feature in your obtaining credit was the fact that you had the wheat sold.

Mr. PECK. They know that we always hedge or they would not loan money to put the wheat there.

Mr. TINCHER. The only reason for the question was that I was wondering if you took money and bought wheat and put it in that elevator if they would not consider the wheat in the elevator as some actual, substantial collateral security.

Mr. PECK. It would not be any collateral without I had it hedged.

Mr. TINCHER. Then it has no intrinsic value save and except the value you can trade on the board of trade?

Mr. PECK. Certainly it has; it has an intrinsic value, but they are not going to lend me money to buy wheat and put in there and stand the possibility of a decline of 40 or 50 cents are they?

Mr. TINCHER. I do not know what they are going to do. I know a good many banks which loan a good many millions of dollars on wheat, considering it was a food product; that there was a market for it and if people wanted to buy it that it was substantial security.

Mr. PECK. Yes; and you found they knew that man had wheat hedged before they let them have that money.

Mr. TINCHER. I know substantial bankers who would not loan a dollar to anyone who would tamper with the boards of trade to even hedge; and they are good bankers.

Mr. PECK. They are the exception.

Mr. TINCHER. They consider wheat as substantial collateral security, and they would loan money on it, and they would not loan money to anyone who was gambling on the board of trade.

Mr. PECK. I do not consider it gambling on the board of trade. I simply insure myself against a decline in the market.

Mr. TINCHER. The bankers consider it gambling, do they not?

Mr. PECK. They do not.

Mr. TINCHER. One testified here yesterday.

Mr. PECK. I do not know who he was. But the president of the First National Bank of Chicago, Mr. Wetmore, says very decidedly that he will not loan money without hedging. That grain man has got to hedge on wheat in order to secure his loaning him money.

Mr. TINCHER. Then he does not consider the grain as collateral security?

Mr. PECK. Not without it was hedged, he would not.

Mr. TINCHER. It would be of some value, would it not?

Mr. PECK. Why, sure, it would have some value.

Mr. TINCHER. Suppose you buy a million bushels of grain—that is a good, big transaction; and suppose you have some of your own money in that grain.

Mr. PECK. I certainly have.

Mr. TINCHER. Suppose, for the sake of discussion, you would have 25 cents a bushel in there of your own money.

Mr. PECK. Yes.

Mr. TINCHER. Then a bank would be reasonably safe in loaning you 75 per cent.

Mr. PECK. It certainly would not without I had that wheat hedged.

Mr. TINCHER. If there was not any hedging and fluctuating markets of 25 or 30 cents a day, he could take his substantial security, then, and have a pretty good loan?

Mr. PECK. Yes; but I would not have the wheat.

Mr. TINCHER. Oh, yes. You could buy the wheat just the same.

Mr. PECK. I would not.

Mr. TINCHER. If you should quit, someody else would buy the wheat.

Mr. PECK. I do not think so.

Mr. TINCHER. We have had that a good many times. They said, "If you pass this law, it would ruin our business."

Mr. PECK. I understand that, but you are going to change this hedging which we have dealt in for so many years, and because that is substantial and safe, before you take that away from us you should very carefully deliberate the effect.

The CHAIRMAN. If the speculators would be eliminated from the operation, would that afford an opportunity to hedge?

Mr. PECK. It would narrow the market, contract it so that there would not be the opportunity of hedging—redealing—the way you can now with the speculator. I think the speculator is a balance wheel.

The CHAIRMAN. To what extent?

Mr. PECK. Well, I can not tell you to what extent, but to a very great extent.

The CHAIRMAN. I am very grateful to you.

We will now hear Mr. Bell.

STATEMENT OF MR. C. H. BELL, PRESIDENT OF THE COMMERCIAL EXCHANGE OF PHILADELPHIA.

Mr. BELL. As president of the Commercial Exchange of Philadelphia, where we do not have an option market, we called together the people who are interested in future trading. These people are exporters or millers or regular traders. The general consensus of opinion there of about 40 or 50 men was that they favored the retention of the present marketing system. There are some complaints of the effect, but no definite suggestions were made in regard to any remedy, so rather than see something tried with which they were not familiar they would prefer to see the retention of the present marketing system as it is operated now.

Personally, I am interested in a milling company. We only sell or buy hedges to keep even. Most of the business that is done in our market is done by the exporters. They receive cable orders and work on the future market, either buying or selling afterwards and covering afterwards with their wheat.

I can not state anything else except say that they favor the retention of the present system.

Mr. MCLAUGHLIN of Nebraska. I believe I understood you to say that you recognized that there were perhaps certain objections or evils to the present system, but you do not know where they are or what they are. Can you suggest some of those as they occur to you?

Mr. BELL. Well, we recognize the effect. By that I mean the violent and frequent fluctuations. For instance, an exporter trading one night at the close of the market may find that the following day the market will open 5 cents higher or 5 cents lower. Now, that makes it, of course, very difficult and very risky for him to trade, but as to the cause of that we are not in position to say.

Mr. MCLAUGHLIN of Michigan. Is that true as to all the troubles they see? Do they see the troubles without knowing what they are or what causes them?

Mr. BELL. Well, from our end, of course, we have no market of our own. Most of the business is done either with Chicago or Duluth or Minneapolis. Now, why those fluctuations should happen, and the cause, we are not prepared to say.

Mr. McLAUGHLIN of Michigan. You speak of just one trouble—fluctuation. Do you know of any other troubles?

Mr. BELL. No.

Mr. McLAUGHLIN of Michigan. You have no knowledge as to what causes the fluctuation?

Mr. BELL. No, sir.

Mr. McLAUGHLIN of Michigan. And you have no remedy, then, I suppose, to suggest to prevent it or avoid it?

Mr. BELL. No; except regulations by the exchanges themselves. I believe that the exchanges themselves could regulate it, possibly with the help of legislation, but I believe that they are in position to regulate those things themselves.

Mr. McLAUGHLIN of Michigan. Well, if there is manipulation—and we have heard a good deal of discussion about manipulation—surely that does happen, if it does happen, in the larger exchanges. Now, as the trades are cleared there those exchanges should be familiar with those difficulties, if any are. But at your distance from where the trouble occurs you are not able to suggest a remedy?

Mr. BELL. No.

Mr. TINCHER. As I understand you, at this meeting you virtually decided that the exchanges were competent of self-government?

Mr. BELL. Yes, sir.

Mr. TINCHER. Well, then, if they are, don't you think we ought to give them their independence and quit bothering them with outside interference? There are a lot of organizations in this country that think they are competent of self-government, and that it is a cruel old Government that passes laws to interfere with them. However, I don't want to take the time of this committee to discuss that.

The CHAIRMAN. I understood you to say that you are a miller?

Mr. BELL. Yes, sir.

The CHAIRMAN. And you buy hedges?

Mr. BELL. Yes, sir.

The CHAIRMAN. What percentage of the hedges are delivered?

Mr. BELL. Well, I can not quote any definite percentage. Occasionally we do take delivery, but we use it mostly as a matter of insurance.

The CHAIRMAN. Can you approximate the percentage?

Mr. BELL. Oh, 5 or 10 per cent.

The CHAIRMAN. Five or 10 per cent?

Mr. BELL. Yes, sir.

The CHAIRMAN. What exchanges do you hedge on?

Mr. BELL. Well, we usually hedge in Chicago; sometimes in Baltimore.

The CHAIRMAN. How many grades are deliverable on a contract? Are you a miller of wheat?

Mr. BELL. Well, we are winter-wheat millers, and I believe the deliverable grade in Baltimore is two red. I don't know how many grades they deliver this year, because I am not familiar with it.

The CHAIRMAN. But you use the winter wheat?

Mr. BELL. We use the winter wheat.

The CHAIRMAN. Do they deliver the winter wheat to you?

Mr. BELL. Yes; at Baltimore.

The CHAIRMAN. Well, under the contract they can deliver either winter or spring, can they not?

Mr. BELL. Of that I am not sure.

The CHAIRMAN. Could you use the spring wheat if it is delivered?

Mr. BELL. Yes; we grind spring also.

The CHAIRMAN. Do you grind and sell a certain brand?

Mr. BELL. Yes, sir.

The CHAIRMAN. Could that brand be produced by either winter or spring wheat?

Mr. BELL. Well, we have both the spring wheat and the winter wheat brands.

The CHAIRMAN. Can the two kinds be used in producing a certain brand?

Mr. BELL. No.

The CHAIRMAN. So, in grinding and selling a certain brand you have to have a certain class of wheat?

Mr. BELL. Yes.

The CHAIRMAN. That is all. Thank you very much. Mr. Van Dusen.

STATEMENT OF MR. F. C. VAN DUSEN, MINNEAPOLIS, MINN., REPRESENTING THE MINNEAPOLIS CHAMBER OF COMMERCE.

Mr. VAN DUSEN. The Chamber of Commerce of Minneapolis is a grain exchange located in an agricultural district and in which district the prosperity of every interest is almost directly dependent upon and intimately related to the prosperity of the farmer.

The Chamber of Commerce of Minneapolis operates a terminal grain market place in which grain can be sold for cash during every business day in the year. The grain produced in the Northwest is to a large extent marketed in the exchange rooms of the Chamber of Commerce of Minneapolis, and the Board of Trade of Duluth. Prices paid for grain at local stations throughout the Northwest in general are based upon the Minneapolis or Duluth prices less freight and a small handling margin. It is a matter of common knowledge that the grain is handled on a smaller margin of profit than any other line of farm produce and this fact is repeatedly set forth in investigations by many governmental agencies.

Prof. L. D. H. Weld, an investigator for the United States Department of Agriculture, states as a result of his investigation for the Bureau of Markets:

PROPORTION OF RETAIL PRICE RECEIVED BY FARMER.

It has become a common habit of writers and speakers on this subject to refer to the proportion of final retail prices that farmers receive on the average for all their products, generally with the intention of presenting such a figure as prima facie evidence of gross wastefulness in the marketing process. The average which has perhaps been spread most commonly throughout the land is 35 per cent.

Prof. Weld goes on to state:

The farmer receives about 90 per cent of the price paid for his bushel of wheat by the Minneapolis miller; the farmer receives about 83 per cent of the price paid by the housewife for the flour made out of his bushel of wheat. But there are by-products, such as bran and middlings, which come out of the wheat,

and the farmer receives about 64 per cent of the price finally paid for the flour and all other products into which his bushel of wheat is manufactured. In this last case the wheat has gone through a country elevator, been transported from 100 to 200 miles, sold by a commission man (possibly stored by a terminal elevator), manufactured into flour in the flour mill, sold to a wholesale grocer, and then to a retail dealer, and yet the producer receives 63 per cent of the final price.

Compare this with milk, which passes through the hands of a railroad company and one other middleman, and for which the farmer receives 37½ per cent of the final price. These proportions for wheat are based on Bulletin No. 130, United States Bureau of Labor Statistics. The data for this bulletin were collected in Kansas and Kansas City, but they apply approximately to the Minneapolis market.

Owing to the system of future trading which has been built up and developed during the past 50 or 60 years, grain purchased at country stations can be sold in the various exchanges for deferred shipment or delivery, thus protecting the shipper from a decline in price during the time this grain is carried in the country elevator or is en route to the terminal market. Because of this protection and the fact that the grain exchanges, such as the Chamber of Commerce of Minneapolis, afford a constant daily cash market, the financing of the grain business has been made much easier and the bankers look upon grain as security of a very high order and representing greater protection to them than any commodity upon which they make loans.

These futures markets are in reality great insurance agencies, to which the farmers, elevator companies, flour millers, linseed-oil manufacturers, and others look for protection against the hazard necessarily involved in the distribution of the crop. The futures markets in the leading grain exchanges have introduced such security into the grain and milling business as to result in money being available at much lower rates of interest than would otherwise be the case, thus materially reducing the cost of distribution. The increased security extended to the grain dealer and miller through the futures markets also has enabled them to transact their business at a much smaller gross margin of profit than would otherwise be possible, still further reducing the cost of distribution and minimizing the spread between the price paid to the producer and the price paid by the ultimate consumer.

Among the false statements repeatedly made with reference to future trading is one to the effect that future trading and the operation of the futures markets tend to depress the price greatly in the fall during the heavy crop-moving period and to enhance the price in the spring after the crop is largely passed out of the producers' hands. This misstatement is so frequently made that it becomes necessary to examine the facts.

The United States Department of Agriculture records of the price of wheat at Minneapolis for each month in the year for many years are available to the committee. Taking the 19-year period from 1895 to 1914, the United States Department of Agriculture figures show that averaging the prices for wheat in Minneapolis in the month of October on each of the 19 years above mentioned, would show that the price of wheat in Minneapolis in October—the height of the crop-moving period in the Northwest—was only 3 cents per bushel less on the average than the price of wheat at Minneapolis in the following April. In other words, the United States Department of Agriculture figures show conclusively that the producer of grain in

the Northwest selling his wheat in Minneapolis in October for 19 years would have received only 3 cents per bushel less than the producer who sold his wheat in April of each year for the 19 years mentioned. The 3 cents per bushel scarcely represents the cost of carrying wheat from October to April, and barely suffices to cover the interest upon the money, cost of storage, shrinkage, etc. This record shows conclusively that future trading does not depress the price during the heavy crop-moving period and advance the price in the following spring.

The world's markets are open to the producer of the Northwest through the port at Duluth and the Great Lakes on equal terms with the producer of grain in western Canada who ships through Fort William and Port Arthur, and via the Lakes to the Atlantic seaboard. Although the western Canadian producer has had the world's markets always available to him, nevertheless the United States customs records at Washington show that the Canadian producer has paid approximately $12,000,000 during the past 10 years for the privilege of marketing his grain in the markets of this country. This demonstrates the opinion which the Canadian grain producers have of the American grain markets.

In a recent issue of the Grain Growers' Guide, the official publication of the United Grain Growers' Co., of Winnipeg, the largest farmers' selling agency in western Canada, the interesting statement is found that the elimination of the duty on Canadian wheat into the United States represented approximately $65 a car additional profit to the western Canadian producer.

The Federal Trade Commission and the United States Department of Agriculture have for several years been making a very thorough investigation of the grain business, and their report has not as yet been published. A committee of 17, representing the farm federations of a number of Western States, is also investigating on behalf of the producers the possible improvements in the methods of marketing. It would seem desirable to await the reports from these agencies before any action was taken by Congress with reference to future trading.

The destruction of future trading by congressional legislation would produce complete demoralization in the grain and milling business. The enormous increase in the hazard incident to the grain and milling business would necessarily result in the elimination of the farmers' elevator company, independent dealer, and small grain merchant generally. It is generally believed by competent observers that the grain and milling business would necessarily drift into the control of a limited number of concerns of very large financial resources and that the grain and milling business of this country would take on the form and character which the meat packing industry now presents. The spread between the price paid to the producer and the price paid by the ultimate consumer would necessarily widen out materially. This was the effect in Germany of the destruction of future trading on the Berlin Bourse, and after this effect had been observed for som five years, the German Government restored the future trading, experience having demonstrated that the general effect of future trading was to moderate the fluctuations in price and to narrow the spread between the producer and the consumer.

The general effect of future trading is to minimize the cost of distribution of grain from the producer to the consumer by furnishing insurance against the speculative hazard incident to the grain and milling business. The price of grain is fixed by the supply and demand. It is well known that the recent decline in the price of grain bought and sold for future delivery was exceeded by the decline in price of wool, cattle, hogs, and other lines of farm produce, which are not bought and sold for future delivery.

The period of readjustment through which this country is now passing, has resulted in severe declines in the price of all kinds of farm produce, but it is interesting to note that the decline is greater in those lines of farm produce which are not bought and sold for future delivery than in those lines of farm produce which are dealt in in the grain exchanges in this manner.

The grain and milling business of this country is of vast importance. The credit resources of this country are under such a state of strain at the present as to indicate that it would be very unwise and probably extremely disastrous to enact legislation which would produce demoralization in a business of such magnitude as the grain and milling business. The destruction of future trading would amount to a revolution in the grain and milling business, and would require a complete readjustment of methods of all those engaged in the distribution of the crop or its manufacture. The proposed destruction of future trading therefore is a matter which should receive the most careful consideration by Congress.

The grain exchanges of this country, however, are sincerely desirous of improving the methods by which grain is handled and welcome constructive suggestions from any source. We believe that a committee should be appointed by Congress either from the Agricultural Committee or economists, as may be deemed desirable, which committee could and should be instructed to cooperate with a committee representing the grain and milling interests for the purpose of carefully studying the whole situation with a view to suggesting any changes or modifications in the present methods which might seem to be in the public interest.

We believe that no legislation should be enacted which would seriously change or affect the present system to doing business until such joint committee has had an opportunity of thoroughly investigating the entire subject and reporting their recommendations.

Mr. McLAUGHLIN of Michigan. You say there was a law passed in Germany at one time forbidding this future trading?

Mr. VAN DUSEN. Yes, sir; that is my understanding.

Mr. McLAUGHLIN of Michigan. And the result was that there was found to be more fluctuation in prices than when future trading was permitted?

Mr. VAN DUSEN. Yes, sir.

Mr. McLAUGHLIN of Michigan. How long was that law in force?

Mr. VAN DUSEN. Five years, I understand, or about that time. That is my understanding.

Mr. McLAUGHLIN of Michigan. And the law was repealed and future trading was permitted?

Mr. VAN DUSEN. Yes, sir.

Mr. McLAUGHLIN of Michigan. What was the result and effect?

Mr. VAN DUSEN. Well, I think they were better satisfied with it before and after that time.

Mr. McLAUGHLIN of Michigan. You say you welcome changes, corrections, and so on, anything that will improve the condition of things. Have you any suggestions to make to us as to changes that we could make by law?

Mr. VAN DUSEN. Well, I don't pretend nor wish to say that the grain business as it is handled to-day, is 100 per cent perfect but I think it comes about as near being that as any line of business that I know anything about.

But I make the suggestion, that if a committee is appointed to cooperate with the committee representing the grain and milling interests, possibly some things can be worked out that would be improvements.

Mr. McLAUGHLIN of Michigan. Well, what about this percentage of imperfections? Can we hear anything from you about that? What it is?

Mr. VAN DUSEN. I don't know that I can state that there is any percentage of imperfections.

Mr. McLAUGHLIN of Michigan. You used that word yourself, and I thought possibly you meant that it was 95 per cent perfect, and that there were 5 per cent of defects. I would like to know at least about the 5 per cent of defects.

Mr. VAN DUSEN. There have been some violent fluctuations during the past 6 months. Whether those were attributable to any one particular reason, or whether such fluctuations can be entirely prevented, I don't know.

Mr. McLAUGHLIN of Michigan. What caused the fluctuation you speak of?

Mr. VAN DUSEN. That I don't know. I don't think it was future trading.

Mr. McLAUGHLIN of Michigan. Do you know of anything that in your opinion contributed to the fluctuation?

Mr. VAN DUSEN. I think we have been going through a readjustment period, and it was only natural that wheat and other grains should have suffered some decline from the prices that were paid during the war. Whether those prices declined more rapidly than they ought, I don't know. They did not decline as much, or as rapidly, as some other commodities.

Mr. McLAUGHLIN of Michigan. And you don't know the cause of the fluctuation? You don't know whether it was a fault or not? And under those circumstances I suppose you have no remedy to suggest? What other fault was in evidence?

Mr. VAN DUSEN. I don't know of any.

Mr. McLAUGHLIN of Michigan. What other trouble?

Mr. VAN DUSEN. I don't know of any other.

Mr. McLAUGHLIN of Michigan. Well, now, if a committee or a commission should be appointed to make an investigation, what would that committee do more than this committee is doing now, calling on those who know or are supposed to know more about these lines of business than anybody else in the country?

Mr. VAN DUSEN. Well, I think a small committee could go into this subject much better than this committee can, with the witnesses

that will appear before you. You can go to the different exchanges and perhaps learn more about the volume of trading.

Mr. McLAUGHLIN of Michigan. Is there anything that you can tell a small committee that you can not tell this committee?

Mr. VAN DUSEN. No; I don't know that there is. But you can get some facts in the way that I state. You can also find out what the rules and regulations are of the different exchanges.

Mr. McLAUGHLIN of Michigan. Well, you know what the rules and regulations of your exchange are?

Mr. VAN DUSEN. I know something of them; yes, sir.

Mr. McLAUGHLIN of Michigan. In your opinion, are any of them wrong?

Mr. VAN DUSEN. No; I don't know of any of them that are.

Mr. McLAUGHLIN of Michigan. Are there any of them that could be safely changed, or a change required of them by law?

Mr. VAN DUSEN. The trading on our exchange is very carefully watched and policed, and we have had no corners; we have had no failures growing out of trading in futures there for a great many years back.

Mr. McLAUGHLIN of Michigan. With some exceptions, this committee is composed of just as good men as could be put on a commission to investigate this subject.

Mr. VAN DUSEN. My only thought was that possibly they could go into it more thoroughly.

Mr. McLAUGHLIN of Michigan. It seems to me that a commission would call men like Mr. Van Dusen, and he would cheerfully tell that commission all he knows.

Mr. VAN DUSEN. I certainly would.

Mr. McLAUGHLIN of Michigan. He has told us all he knows, and he hasn't told us anything that will help us to find troubles or correct them. We have been loading ourselves up with commissions. This has been almost a government of commissions, boards, and so on. My impression is that many of them have not worked very well.

Mr. VAN DUSEN. Well, in making that suggestion, Mr. McLaughlin, it was not with any idea of casting any reflections on anybody. I thought possibly it might lead to a way of getting at the subject in a little more thorough way; that was all.

Mr. McLAUGHLIN of Michigan. That is all. Thank you.

Mr. VOIGT. Are you an officer of the exchange, Mr. Van Dusen?

Mr. VAN DUSEN. I am a director; that is all.

Mr. VOIGT. What percentage of contracts that are made for grain on the exchange actually result in the delivery of grain?

Mr. VAN DUSEN. I don't know that. I can not answer that.

Mr. VOIGT. Well, have you any judgment on that?

Mr. VAN DUSEN. That varies at different times.

Mr. VOIGT. Well, give an average figure.

Mr. VAN DUSEN. I couldn't give an average figure. I know in the case of our own company that we deliver probably 75 per cent of all the wheat that we bought in Minneapolis and sold for December delivery.

Mr. VOIGT. Well, your business is to deal in spot grain?

Mr. VAN DUSEN. Yes, sir.

Mr. VOIGT. Well, now, you do not want to leave this committee under the impression that 75 per cent of all deals made on the exchange actually result in a delivery of grain?

Mr. VAN DUSEN. No; I tried to state that I couldn't answer that question. I don't know.

Mr. VOIGT. Well, now, as a director of that exchange that same thought has undoubtedly occurred to you a great many times?

Mr. VAN DUSEN. But I never have seen any figures.

Mr. VOIGT. No; but have you ever tried to form any judgment or any guess on that subject?

Mr. VAN DUSEN. I have no way of knowing at all. We have a clearing house in Minneapolis through which all trades are cleared and brought to the market every day. The figures representing the volume of business handled on the exchange each day are not available to the directors or members. I don't know.

Mr. MCLAUGHLIN of Michigan. I might say right there that that question that Mr. Voigt has asked has been asked a great many times, and witnesses have been criticized for failure to answer. It seems to me that it ought to be pretty well known to gentlemen like you who come before the committee that that question is asked and that there is suspicion of the operations of the exchange because its officers refuse to answer that question, and that you ought to come here prepared to answer that question or to tell why the information is withheld.

Mr. VAN DUSEN. Well, I certainly will not refuse to answer any question that I can answer, Mr. McLaughlin, but I can not answer you that and give you the facts, because those figures are not available to me. I don't know them.

Mr. MCLAUGHLIN of Michigan. Why are they not available? Hasn't your exchange the power to require a record to be made of all of them?

Mr. VAN DUSEN. There is no publicity ever given to the volume of business by individuals.

Mr. MCLAUGHLIN of Michigan. Men go on there and trade with one another, and no report whatever is made to any authority connected with the exchange?

Mr. VAN DUSEN. Yes, sir.

Mr. VOIGT. Well now, is this clearing house operated by officers of the exchange?

Mr. VAN DUSEN. No, sir; it is an entirely separate organization.

Mr. VOIGT. Well, it is operated in conjunction with your exchange?

Mr. VAN DUSEN. The members of the Clearing House Association must be members of the chamber of commerce, that is all.

Mr. VOIGT. Well, it is an adjunct to your exchange?

Mr. VAN DUSEN. Well, it is operated in connection with the exchange, yes.

Mr. VOIGT. Well now, that clearing house is supervised by one or more people who make it their business, is it not?

Mr. VAN DUSEN. Yes, sir; they have a manager.

Mr. VOIGT. Well now, if you had a clearing house which does the same thing for these contracts as a clearing house would for banks, the manager of that clearing house would know the total of contracts cleared there each day, would he not?

Mr. VAN DUSEN. Yes, sir.

Mr. VOIGT. Is that gentleman here?

Mr. VAN DUSEN. No, sir.

Mr. McLAUGHLIN of Nebraska. He is the man we want.

Mr. VOIGT. Well, what is his name?

Mr. VAN DUSEN. His name is Williams.

Mr. VOIGT. First name?

Mr. VAN DUSEN. W. S., I think are his initials; Williams.

Mr. VOIGT. Well now, he would be able to give that information that I asked you about?

Mr. VAN DUSEN. Well, that I don't know. If he has that information I presume he would be able to give it to you.

Mr. VOIGT. Does he keep a record of the clearings from day to day?

Mr. VAN DUSEN. That I don't know. He keeps a record of the differences each day. Whether he keeps a record of the total volume of a day I don't know.

Mr. VOIGT. Well, if every member of that clearing house comes to the clearing house every day and reports its total volume of purchases and sales, and there is any record at all kept, that man Williams would know the total, would he not?

Mr. VAN DUSEN. He would know what the records are.

Mr. VOIGT. How?

Mr. VAN DUSEN. He would know what the records are, but as I say, whether he keeps a record of the totals, I don't know.

Mr. VOIGT. Is your firm a member of that clearing house?

Mr. VAN DUSEN. Yes, sir.

Mr. VOIGT. Have you ever tried to ascertain the totals dealt in?

Mr. VAN DUSEN. No, sir; never have.

Mr. VOIGT. Well, has your curiosity ever been aroused to ascertain what the total amount of grain dealt in on your exchange was on a given day or over a period of a month, for instance?

Mr. VAN DUSEN. Well, I have never asked the question, because I thought I would not be told if I were to ask it.

Mr. VOIGT. Well, have you ever tried to figure it out for yourself?

Mr. VAN DUSEN. No, sir; I never have.

Mr. VOIGT. That question evidently has not aroused your interest?

Mr. VAN DUSEN. Well, I never tried to figure it out.

Mr. VOIGT. Well, if you were asked to state your best judgment on the amount or the percentage of grain delivered on the whole number of contracts made, what would you say?

Mr. VAN DUSEN. Just what I said a few minutes ago. I would not undertake to answer. I don't know.

Mr. VOIGT. You have no judgment or opinion or guess on that point?

Mr. VAN DUSEN. No, sir.

Mr. VOIGT. Would it be your judgment that on most contracts made on a grain exchange the actual grain is never delivered?

Mr. VAN DUSEN. By "most," do you mean more than 50 per cent?

Mr. VOIGT. Yes, sir.

Mr. VAN DUSEN. No; I would think there would be less than 50 per cent delivered. All trades that are made must contemplate delivery, however.

Mr. VOIGT. Yes; we understand that. That is, they so provide on paper.

Mr. VAN DUSEN. They must be, too.

Mr. MCLAUGHLIN of Michigan. How?

Mr. VAN DUSEN. They must be, too.

Mr. MCLAUGHLIN of Michigan. They must contemplate delivery?

Mr. VAN DUSEN. They must contemplate delivery.

Mr. VOIGT. That is, they contemplate delivery in the contract, on paper. You will admit, will you not, that a great many people buy and sell grain through brokers who do not contemplate delivery?

Mr. VAN DUSEN. That may be possible, and yet unless they do close up their trade before delivery date they must stand ready to take delivery of the grain.

Mr. VOIGT. I understand that, but when they make the contract or speculation they have no idea of carrying that contract to a termination. You will admit that there are thousands of such people?

Mr. VAN DUSEN. I presume that is true.

Mr. MCLAUGHLIN of Michigan. But you just said they contemplated delivery.

Mr. VAN DUSEN. Yes.

Mr. MCLAUGHLIN of Michigan. They do not intend to do it, but they contemplate delivery?

Mr. VAN DUSEN. All trades are based on delivery.

Mr. MCLAUGHLIN of Michigan. On the possibility of its being required. But not contemplation or intention. Well, I am not testifying for you, but that has been the impression from what I have learned about it, but your answer would lead me, if I accepted it, to a different conclusion.

Mr. VOIGT. But all trades made can be closed up by paying the difference between the price named in the trade and the market price when the contract is closed up?

Mr. VAN DUSEN. If a sale is made, there must be an equal amount purchasd to close the trade.

Mr. VOIGT. What I mean is that instead of making the delivery called for by the contract, the contract may be closed up by adding or receiving some difference, without contemplating a delivery of grain.

Mr. VAN DUSEN. By either buying or selling, as the case may be, a corresponding amount of grain for the same future month.

Mr. VOIGT. Yes; and which second contract may again be disposed of in the same manner?

Mr. VAN DUSEN. Well, that would close the original trade.

Mr. VOIGT. Yes. Then, when the second trade is made, that can be closed up by a third trade without a delivery of grain?

Mr. VAN DUSEN. Well, I thought we were only closing one trade.

Mr. VOIGT. I have got one trade closed. You say that the first trade may be closed by another trade.

Mr. VAN DUSEN. A sale, when made, can be closed by a corresponding amount being purchased, and the difference either received or paid, as the case may be.

Mr. VOIGT. Well, then, that second trade is identical with the first trade.

Mr. VAN DUSEN. Excepting that it is on the opposite side.

Mr. VOIGT. Yes. Now, that second trade may again be closed up?

Mr. VAN DUSEN. No; you have closed your first trade by making a second one.

Mr. VOIGT. I understand that as to the first party, but the second party that assumes that trade may dispose of it in like manner, that is, it may be an endless chain of trades?

Mr. VAN DUSEN. Yes.

Mr. VOIGT. Do you know of anyone that can state approximately the percentage of cases where there is no actual delivery of the grain?

Mr. VAN DUSEN. No; I do not.

Mr. VOIGT. Has your exchange ever endeavored to get figures on that subject?

Mr. VAN DUSEN. Not to my knowledge.

Mr. VOIGT. Has it ever been proposed by anybody?

Mr. VAN DUSEN. Not to my knowledge.

Mr. VOIGT. That is all.

Mr. MCLAUGHLIN of Nebraska. Mr. Van Dusen, I understood you to say awhile ago that the grain operators on your exchange were carefully policed and regulated. Now, it seems from this line of questioning that no record of transactions—as to their nature and volume—are kept by the exchange itself, so that you can give us no information on that subject, and no information seems to be available by or through your clearing-house agency as to the nature or volume of these transactions. Doesn't it seem to you that there may be need for a little revision in your regulations so that such information can be supplied when there is call for it?

Mr. VAN DUSEN. Well, possibly the fact that that clearing-house association has been in existence for 30 years, and that we have had no difficulty at all growing out of the system that has been used, would be pretty good evidence that it was being properly conducted.

The CHAIRMAN. Thank you, Mr. Van Dusen. That is all.

The CHAIRMAN. Mr. MacMillan.

STATEMENT OF MR. J. H. MacMILLAN, MINNEAPOLIS, MINN., REPRESENTING THE MINNEAPOLIS CHAMBER OF COMMERCE.

Mr. MACMILLAN. I want to say to commence with that I heartily concur in all that Mr. Van Dusen has testified to. I would like to call to your attention the results of some previous investigations on this subject, which are very voluminous, but I will call to your attention a few of the conclusions.

Congress, on June 18, 1898, created a nonpartisan commission, consisting of five Senators, five Representatives, and nine especially qualified persons appointed by the President with the consent of the Senate, called the Industrial Commission, and gave this commission power to summon and hear witnesses, compel the production of papers and documents, and make a thorough investigation of various phases of industrial, agricultural, and commercial life.

This commission took nearly three years to complete its work. It visited practically every portion of the United States, took the testimony of nearly 700 witnesses, compiled reports requiring 19 volumes of printed matter, and went into this question of marketing of grain and the matter of a "futures market" very thoroughly.

Its chairman was the well-known Populist Senator from South Dakota, Hon. James H. Kyle.

Here is one of the statements from this report:

One speculator might place the future market price too high, another too low, but as a class they correct and check one another. It is to their interest as distributors to call forth all that the consumer will take and no more. Speculators as a class are therefore interested primarily in a correct judgment—as much so as is either the producer or the consumer of the product in which the trader speculates. If, for instance, the Liverpool wheat speculators should, through an error of judgment or calculation, set the price of May wheat 10 cents below the correct world price, the surplus stock would meanwhile be disturbed elsewhere until the shortage in the Liverpool supply became evident from a rise in the price paid by consumers. This would bring some of the misdirected shipments to Liverpool, but not so much as if the blunder had not been made in the beginning; other places, whose speculators more correctly anticipated future prices, would supply themselves more fully than usual. Thus the volume of trade at Liverpool would be reduced by a valuation too low to bring an adequate supply, the consumer's customary demand would be inadequately supplied at the undervalued price, and the total expenses of distribution increased by the defective judgment of the speculator.

These two kinds of services are peculiar to speculative distribution—the services of assuming the risks that arise from changes in the relation of demand and supply, and the services of giving the right direction to the commodities available for consumption. Even in famine-stricken India the Government regards speculative distribution of supplies as on the whole far more efficient than any bureaucratic distribution could be. Without this modern markets would be deprived of a very great share of their efficiency in serving producers and consumers. In fact, those who have thought out the subject most thoroughly have found in this directive work of speculation the chief justification for its existence. Where government has assumed even part of the risks of crop distribution, as in Russia, piles of wheat rot in one section while people starve in the next.

"The central feature," says Prof. Emery, "in the economic organization of modern society is the market. From the point of view of the individual the production and distribution of commodities are carried on with a view to their exchange. The regulator of exchange, and therefore of production, is value. Consequently the producer will expend his energies on such commodities as will have the greatest market value as compared with the expenses of production, just as the merchant will take them to the market where they will command the highest price. But this adjustment of production and distribution according to values will be accurate only when he thinks he can get a return greater than his outlay. The merchant buys only when he thinks he can sell at a higher price.

"In both cases there is always the risk that before the production is completed or the sale made the value of the commodity may fall. Similarly there is a chance that it may rise. In the one case there is a loss, in the other a gain, to the producer or merchant. Hence it may fairly be said that the test of the perfection of the organization of trade is the promptness with which such changes are learned and the accuracy with which they are predicted. It is by a due appreciation of this fact that one comes to a realization of the importance of organized speculation. If it is found to be the means of making the needed prediction, it will also prove itself the chief directive influence in the economic field in which it prevails."

Speculative dealings in farm products have, then, these three facts to consider: The distance between producer and consumer, concentration and distribution of surplus crops at the right times and places, and the formation of a business judgment based on the ratio of the visible supply of the world's grain and cotton, for example, to the customary demand of its consuming communities. The scope of this task of forming a judgment upon worldwide conditions, and forming it accurately enough to stake millions of capital upon it, is perhaps the heaviest hazard in our whole modern economic organization of society. But some class of investors must do it, or consumers must pay a higher price for their product, and producers must be content to enter the market with fewer competitors ready to buy and carry their surplus.

Producers and consumers together, without the speculative mechanism at work, would have to divide the risks of distribution between them. Neither of these interests is prepared to do this. Sound commercial policy is the best

served by a rational division of distributive labor, in which economic freedom and economic responsibility are equally respected.

The economic services of speculative agencies engaged in distributing farm products are threefold:

1. They localize industrial risks among a commercial class whose special function it is to distribute surplus supplies over deficit times and places in such a way as to lessen the uncertainty of producers and consumers.

2. They relieve producers and consumers from carrying a whole year's stock, enabling the former to convert his crop promptly into cash capital and the latter to supply himself as his periodical needs may require without enhancing prices beyond the ordinary rate of risks and returns of such capital investments.

3. Competition of speculative dealers tends more than any other force to reduce profits of these agencies to a minimum per unit of commodity handled. Released from other economic functions, it is to their interest to seek to reduce the risks of distribution to a minimum. By expert acquaintance with the conditions that involve risks the hazardous elements are gradually limited if not entirely eliminated.

Then it quotes from Dr. Emery a little later on where he said:

It is not so many years ago since a large and representative meeting of western American farmers passed a resolution against options on the score that they tended to unfairly reduce the price of wheat, and it was just three weeks after that meeting that a convention of the National Association of American Millers, attended by some 500 members was held in Minneapolis, and passed a resolution condemning options on the ground that they unfairly raised the price of wheat.

Then the report states:

As we have attempted to show, it is a mistake to represent speculation in futures as an organized attempt to suppress prices to producers.

First. Because every short seller must become a buyer before he carries out his contract.

Second. Because, as far as spot prices are concerned, the short seller appears as a buyer and not as a seller, and therefore, against his own will, is instrumental in raising prices.

Third. Because, as far as "future" prices are concerned the "bull" in speculative buying counteracts the effects of speculative selling of the "bear."

Fourth. Because the "bull" in his realizing operations when depressing prices is counteracted by the opposite effect of the "covering movements" of the "bear," the two sides thus keeping in market price about where it would be kept in the long run if instead of the "bulls" and "bears" there would be ordinary legitimate buyers and sellers.

Fifth. Because, as has been shown, future sales are not made at a uniformly lower price than the corresponding spot price, but on the contrary are on the average a little above spot prices to meet the cost of storage, interest, and other charges.

Sixth Because, as has been shown, neither the "bears" nor the "bulls" are uniformly on the winning side, but are about equally losers and winners, thus proving that one is about as important and influential a factor in the market as the other.

Seventh. Because evidence believed to be conclusive has been presented showing that, under speculation, prices prevailing at the time when producers dispose of the greater part of their products are greater in comparison to the rest of the year than they were before the advent of modern speculation.

Now, Hon. Herbert Knox Smith, commissioner of corporations, made a report on the cotton exchanges. In it he says:

The future system, by thus attracting the intelligence, skill, and facilities of such operaors, should confer upon those directly interested in the cotton business the benefit of very necessary information which they would not otherwise secure. That is to say, intelligent speculation generally tends to afford the nonspeculative merchant, producer, or consumer a basis upon which to make his future arrangements in actual cotton.

For instance, without organized speculation, a merchant who, say, in July, received an inquiry from a spinner for cotton to be delivered in the following January might have great difficulty in deciding what price he would name.

Naturally he would be guided to some extent by the prices of his competitors, but they in turn would originally be at the same disadvantage.

With a properly organized future market, on the other hand, where quotations for future deliveries are published constantly, such a merchant instantly has a basis for entering into such forward commitments.

Protection which should be afforded nonspeculative interests, against mistakes of speculators: Of course, speculators of intelligence and experience usually hold divergent opinions as to the probable course of prices, and one faction must be wrong. This very divergence of opinion tends to prevent extremely violent fluctuations. It does not, however, prevent many and marked erroneous forecasts of prices. That is to say, the price of cotton, as established by speculation in September for delivery in March may be 10 cents, whereas, owing to a short crop and to an unusually heavy demand, the actual price of spot cotton in March may prove to be 15 cents. In such cases those engaged in the purchase and sale of actual cotton might, by relying on the prices established in September by organized speculation, be misled into serious error and heavy loss. Indeed, it might seem on the surface that speculation, instead of affording advantages to those dealing in the actual product, would, because of such erroneous forecasts, prove exceedingly detrimental and even disastrous to such interests; this view is, indeed, widely held.

It is one of the peculiar functions of the future system, if properly conducted, however, to afford a very effective remedy for its own errors in this respect, in so far as the nonspeculative class of middlemen or merchants is concerned. This is provided through the so-called hedging function, already exhaustively discussed in preceding portions of this report. It was there shown that under a proper system of future trading a cotton merchant is able safely to enter into agreements to deliver cotton to spinners, at some future date, long before he himself purchases it. This is because of his ability to buy future contracts on an exchange as a hedge. The theory is that if, before he buys the actual cotton for delivery to the spinner, the price advances, his future contract which he thus purchased as a hedge will advance by a corresponding amount, so that the loss or reduction in his profit which he suffers on account of such rise in the price of spot cotton will be offset by a corresponding profit due to the advance in the price of his future contract. In other words, while the speculative class attempts to forecast, for the benefit of the trade in general as well as for its own personal profit, the probable course of prices, it should also undertake to relieve the nonspeculative class from any disaster which may result from erroneous forecasts. Unless the speculative class fairly performs these fundamental functions and accepts such speculators' risks, there is no justification for its existence.

This benefit to the nonspeculative class will not be realized, however, unless the rules of the exchange provide for a "natural" market with price movements based on the actual article. That the future system has frequently failed to afford proper protection in such hedging operations of the nonspeculative class is not an inherent fault of the system, but is largely due to the improper rules under which the system has been conducted, particularly in the New York market.

It will be seen, therefore, that speculation, if properly conducted and safeguarded, affords advantages of almost incalculable service. Under an ideal system of speculation the risks which inevitably result from unavoidable changes in value would be thrown on the speculative class, to the relief of the nonspeculative class. The system in actual practice, as shown, is far from ideal; nevertheless its possible benefits are enormous and its actual advantages probably great.

Service of speculation in providing a ready market at all times: A peculiar function of a broad speculation, and one of great value, is that it provides at all times a market in which those who have a commodity to sell may dispose of it, or in which those who desire to buy may purchase it. The advantages of such a ready market at all times scarcely require illustration. Anyone who has watched the market for commodities or property where there are no exchanges with organized facilities for speculation, as, for instance, real estate, knows very well that it sometimes is practically impossible to find a purchaser at any price. Property may be offered for weeks and months without finding a buyer.

In a broad future market, on the other hand, there is always an opportunity to sell at some price on very short notice. This advantage is, of course, largely

due to the fact that a future market brings many buyers and sellers together at one place and at one time, and thus converges at a single point buying and selling offers from a great number of different sources. Futures have been called the "consols of produce." This very breadth of the future market is, however, as shown later, largely dependent upon the volume of purely speculative transactions.

The advantages of such a broad and ready market are not confined to those who directly use it. While they are, of course, of great value to the cotton merchant, the benefit which he derives should be extended indirectly to the cotton producer on the one hand and to the consumer on the other. The value of the future market to a producer in this respect is illustrated in the following statement, in substance, of a cotton buyer in Mississippi:

While a cotton planter may not sell his cotton directly through the future markets, he is enabled, through the facilities afforded in future contracts, always readily to find a buyer for his product. In almost every season there is a period of from six weeks to two months when spinners are not in the market for cotton. But this fact does not change the desire of the farmer or other holders of cotton to sell. The buyer knows that he can sell future contracts against any cotton he may produce and protect himself, and he is thereby enabled to offer the farmer cash for his cotton on any day of the year, whether the spinner desires a bale or not. * * * It is probable that no single advantage accruing to any branch of the cotton interest is of so much value as this advantage, which gives to the farmer a purchaser for his cotton at any time.

This broadening of the future market is of especial service in hedging operations. In order that hedging may be conducted satisfactorily, the future market should be broad and active. Thus, if a merchant selling cotton to a spinner were compelled to hedge in a future market so narrow that a purchase, say, of 500 bales would send the contract price up one-half cent or more, or if sales to such an extent would correspondingly depress the contract price, the hedge obviously would be a very poor protection. While hedging transactions are undoubtedly large in the aggregate, they would not alone provide a future market sufficiently broad to prevent violent price fluctuations within very brief periods of time. Moreover, it may frequently happen that there is a preponderance of hedging transactions proper on either the buying or selling side. This is altogether probable. Thus, in the spring and summer, before a new crop is matured, cotton merchants who are entering into forward commitments with spinners ordinarily desire a buying hedge as a protection. In the fall, on the other hand, when cotton is freely coming to market, and merchants are buying it faster than they can sell it to spinners, they frequently desire a selling hedge. It should be understood that there is no rigid distribution by the calendar of selling and buying hedge transactions. Instead, there is at all times in an active market a considerable volume of each class of such hedging operations.

The point to be emphasized is that buying hedges and selling hedges frequently may not balance one another. Under these circumstances a large excess of hedge selling probably would in a narrow market result in a depression of the price, while an excess of hedge buying might cause a sharp advance. With speculation fully organized, however, the force of such hedge buying or hedge selling should be absorbed without any undue shock to the market. In other words, a broad speculation should impart greater steadiness to price movements.

Then he calls attention to the fact that "the same cotton may be hedged over and over again by different parties, thus counting several times in the total of hedging transactions."

Then again: "But for the presence of the speculator, the merchant would oftentimes have great difficulty in finding anyone who would sell a contract. The speculator is willing to take his chances upon a transaction of this kind, and thus enables the spinner to secure the cotton for future delivery at a guaranteed price. Through this process millions of bales of cotton are sold to spinners before the seed is planted. The speculator helps to take care of this cotton, and altogether the contract may change hands a hundred times between the

date"—of the original transaction. He goes on to say that abolition of future trading would make possible and probable the trust control of the cotton crop.

Mr. VOIGT. Did you finish that sentence there where he speaks about it changing hands hundreds of times?

Mr. MACMILLAN. Well, the following page is missing; I haven't it.

Mr. VOIGT. Did you read all that is there?

Mr. MACMILLAN. I read all that is on this page; yes, sir. The next page is missing.

The abolition of future trading would make possible and probable the trust control of the cotton crop. An open market into which the public may come and buy in competition with the special interests renders trust control impossible. There is no future market for steel and there is a steel trust. There is no future market for sugar, and there is a sugar trust. There is no future market for meat, and there is a meat trust. There is a future market for corn and wheat, but there is no corn or wheat trust. There is a future market for cotton, but there is no cotton trust. There is no trust control of any commodity that in open market may be bought and sold on contract for future delivery. The reason is plain. The great public is not equipped to buy and store the commodity itself, but it can buy the contract for the commodity which contract may, if necessary, be enforced. When it appears to the public that the price of a commodity has been pressed too low, it comes into the market and buys the contract for delivery. This competition forces the special interests which must have the actual commodity also to buy either the commodity or the contract therefor. The market is thus sustained and advanced, and the producer is supplied with a market in which he may sell his present holdings or contract to sell his future crop. If it was not for the facility of the future market, this competition would not be possible, and if it was not for this competition the special interests could fix prices to suit themselves.

That was a quotation from an address by W. E. Thompson, president of the New Orleans Cotton Exchange, before the joint agricultural committee of the house in the Legislature of Louisiana in May 1908.

Then he goes on:

This argument that organized future trading tends to prevent monopoly while interesting, is not presented here as proved. Before expressing an opinion on so important a matter exhaustive investigation would be necessary. It is worth repeating, however, that the future system undoubtedly tends to increase the number of merchants engaged in the cotton business in the purchase either of actual cotton or of future contracts. To this extent, at least, the argument that the system should tend to prevent the establishment of monopoly has considerable force. The opportunity for action by merchants in concert either by agreements to keep prices down or by agreements not to buy in one another's territory, or, on the other hand, to demand excessive prices in sales to spinners, is, of course, very much greater where there are only a few concerns than where there are a great number. In so far, therefore, as the future system has tended to increase the number of merchant buyers, it has, because of the consequent competition, tended to prevent combinations and possible monopoly.

And further on this statement is made by a merchant of Galveston:

An abandonment of future trading in American markets would make Liverpool, which is thousands of miles away from the cotton fields, practically the only cotton market of the world and the absolute dictator of prices.

Mr. MCLAUGHLIN of Michigan. Let me ask you a question right there. That is a report by Hon. Herbert Knox Smith?

Mr. MACMILLAN. Yes, sir.

Mr. McLAUGHLIN of Michigan. At the time he made the investigation was he employed by the Government?

Mr. MacMILLAN. Yes, sir; he was Commissioner of Corporations.

Mr. McLAUGHLIN of Michigan. That is an official communication, then, of an official investigation?

Mr. MacMILLAN. That is an official communication of an official investigation; yes; and these are extracts.

Now, I have here some extracts from Prof. Weld's report. He was at the time professor of economics at the farm school of the University of Minnesota, and made an investigation, at the request of the Department of Agriculture, and he wrote a book on the subject. His book is called "The Marketing of Farm Products."

He states:

There can be no doubt of the beneficial effect of hedging in reducing the cost of marketing those commodities which may be traded in for future delivery. It has been shown how the flour miller can afford to charge less for his flour, how the terminal elevator can pay more for wheat to store, and how the country elevator can allow a smaller margin and hence pay a higher price to the farmer, than if it were impossible to hedge. It is significant that there is no speculative market for barley and rye, and that they are handled at wider margins all along the line.

And later he goes on to say:

Let us assume that we prohibit pure speculation, and then both buyer and seller in every transaction would have to be hedging.

To say nothing of the practical difficulty of determining in each case whether both parties are hedging—and this difficulty would be especially great when orders from outside markets are considered—it is safe to say that the market for futures would be so crippled and narrowed as to destroy it for hedging purposes, and that the principal risk-assuming specialists would be eliminated.

And here is a quotation from the letter of the Secretary of Agriculture, transmitting report concerning the prices paid for wheat to producers in the State of Kansas, and the prices at which wheat is sold for export at Kansas City, Mo., and how such prices are determined.

Mr. McLAUGHLIN of Michigan. You say that was from the Secretary of Agriculture? What Secretary was that?

Mr. MacMILLAN. Houston. His letter was dated October 24, 1914. Quoting from the report:

Hedging: Of the 16 country elevators visited by the writers, not one takes advantage of the hedging of purchases and consignments. If grain is purchased one day at 88. and before the same is sold the market drops, the country elevator sustains a loss equivalent to the decline of the market. On September 4 the market for spots ordinary at Kansas City was 1.12 to 1.13½. The market had reached this point after a gradual rise. A great many country elevator managers expected wheat would reach a price better than the September 4 quotation and filled their elevators with grain costing around $1 a bushel. This grain was not protected by hedging in the future market, and consequently unless the price returns to $1 a bushel this grain will have to be sold at a loss. If this wheat had been hedged, there would have been no loss from falling prices unless the spread between cash and future prices should vary. In fact, this condition appears to be prevalent, and not one of the 16 elevators visited hedges its holdings. The country elevator managers consider that any transaction in futures constitute gambling, they having no conception of the insurance value of future trading. This condition is entirely different from that found in the spring wheat section, Minnesota and the Dakotas, where even the smallest elevator protects its purchases by hedging.

This is the weakest point in the present method of marketing Kansas wheat.

I would also like to present a copy of a letter signed by Charles J. Brant, who is Chief of the Bureau of Markets and Rural Organization, under date of November 28, 1916. He says:

By the term "future delivery" it is assumed that you refer only to those transactions which are made on or through regular exchanges and which are commonly known as "dealings in futures." Owing to the fact that many such transactions are in reality neither for purposes of actual delivery nor as hedges against spot purchases or sales, it may be that you desire the views of this office regarding purely speculative trades. Without going into a discussion of the ethical principles involved, my opinion is that future trading, if conducted under proper safeguards and limitations, is a legitimate economic function in both cotton and grain marketing, whether the purpose of the trade be for hedging or otherwise.

In this connection it may be stated that in the Government supervision of contracts for the future delivery of cotton Congress has not seen fit to make any statutory distinction between really nonspeculative trades and those which are only nominally so.

You ask if this office sanctions or indorses transactions for the future delivery of cotton. Permit me to call your attention to the United States cotton futures act, approved August 18, 1914, and reenacted with certain changes on August 11, 1916. A copy thereof, under the same cover with the regulations prescribed by this department, is inclosed. The effect of this legislation has been not to restrict future trading but to remove certain evils which had been long existent on the two great cotton exchanges of this country. Therefore, in answer to this question, you are advised that this office can not disapprove of any purchase or sale of cotton for future delivery made at, in, or on an exchange, board of trade, or similar institution or place of business if the contract of sale covering said transaction conforms in all respects to the requirements of the United States cotton futures act.

I would prefer not to express an opinion on the advisability of State legislation without a copy of the proposed bill before me. Statutes designed to prohibit business transactions previously permitted are serious matters. Destructive or restrictive legislation may easily be more far-reaching in its effects than was intended by its framers.

Mr. MacMillan. I also should like to present some copies of letters from various cooperative grain elevators in Canada. They have some very large cooperative organizations up there. One of these letters was written on December 9, 1916, and the other two on April 25, 1916. The first one is from the Saskatchewan Cooperative Elevator Co., and is as follows:

We are generally only too glad to give information regarding the marketing of grain in the Northwest to anyone who is working with a view to improving conditions generally, but principally as they affect a western farmer. The sole object of our company is that of improving marketing conditions for the farmers of Saskatchewan. From the clear manner in which you put your questions, it is evident that you are well acquainted with the marketing of grain; consequently it will not be necessary for us to reply but briefly:

1. "Do you hedge the wheat purchased by you at country points by selling same for future delivery in the pit at Winnipeg?"

Yes; we hedge all purchases of grain.

2. "Does this futures market enable you to pay the grain grower more money for his grain by reason of the fact that you are protected or insured against loss by reason of price changes?"

Yes.

3. "Do you buy rye and barley on a larger margin because it is not possible to hedge those grains in a future market?"

Yes. We find in handling grain which can not be hedged that it is absolutely necessary for us to work on a wider margin than would otherwise be the case to protect us against big fluctuations.

4. "What would you say, generally, as to the advisability of abolishing the futures market?"

From our standpoint, at the present time we should very much regret to see the futures market abolished. We believe it provides a steadying influence throughout the grain trade, and we should undoubtedly have to purchase all our grain on a wider margin if we could not hedge.

Mr. McLAUGHLIN of Michigan. To whom was that letter written?

Mr. MACMILLAN. This was written to Mr. Asher Howard, a member of our legislature in the State of Minnesota. He got this information for the purpose of an investigation which was made in our own legislature at the last session.

Then I have a letter from the Alberta Farmers' Cooperative Elevator Co., dated Calgary, Alberta, April 25, 1916, addressed to Mr. Asher Howard, Minneapolis, Minn.:

Your letter to Mr. P. P. Woodbridge, the secretary of the United Farmers of Alberta, has been turned over to the writer for his attention.

In reply I may say that every bushel of wheat handled by this company is hedged at Winnipeg. As nearly as we can estimate our purchases for any day, the grain is sold before it is bought.

Trusting that this is the information that you require, I remain,

Yours, very truly,

C. RICE JONES, *General Manager.*

And then a letter from the Saskatchewan Grain Growers' Association, Regina, Saskatchewan, April 26, 1916:

ASHER HOWARD, Esq.,
Minneapolis, Minn.

DEAR SIR: Replying to your favor of the 17th, I have to state that the grain-marketing branch of the Saskatchewan Grain Growers' Association is conducted by the Saskatchewan Cooperative Elevator Co., the association itself not being engaged directly in the grain business.

The company is now the largest grain elevator company in the world—hedges all its business, selling for future delivery as nearly as possible on the day of purchase all grain purchased by the company. No grain business could be carried on safely without hedging. This is the legitimate use of the option market, in my opinion. To do otherwise would mean to take a gambler's chance of purchasing grain at a fixed price without any definite knowledge of the price at which it can be disposed of. This would be doubly hazardous, because of the fact that sometimes months elapse between time of delivery at an interior elevator and the time at which delivery can be made at an export point.

Yours, fraternally,

M. B. MUSSELMAN,
General Secretary.

Mr. MACMILLAN. I am going to file a copy of a comparative price list, comparing Winnipeg and Minneapolis prices, from the Grain Growers' Guide, under date of February 9, 1916.

The CHAIRMAN. Just these comparative prices?

Mr. MACMILLAN. Yes; that is all.

The CHAIRMAN. Without objection, it will be inserted in the record.

(The list of Winnipeg and Minneapolis prices presented by Mr. MacMillan is here printed in full, as follows:)

[From Grain Growers' Guide, Feb. 9, 1916.]

WINNIPEG AND MINNEAPOLIS PRICES.

In spite of the facts to the contrary, an opponent of free wheat occasionally appears with the statement that, on the average, prices of grain are higher on the Winnipeg market than at Minneapolis. In order to remove any doubt in this matter, the following figures have been compiled, showing the cash prices of No. 1 Northern wheat at Winnipeg and Minneapolis on the last day of each

week in November and December, 1911, and for the years 1912, 1913, 1914, and 1915, as given on the market page of the Guide from week to week.

	Winnipeg.	Minneapolis.
1911.		
Nov. 4	$0.99¼	$1.05¼
Nov. 11	.98	1.04¾
Nov. 18	.93½	1.05–1.05¾
Nov. 25	.98¾	1.05¾
Dec. 2	.96¼	1.03⅝
Dec. 8	.94½	1.00
Dec. 16	.94½	1.04
Dec. 22	.94	1.05–1.05¾
Dec. 30	.98⅛	1.06¼
1912.		
Jan. 5	.94¾	1.09¼
Jan. 13	.95¼	1.06¼
Jan. 20	.96¼	1.06
Jan. 27	.96¾	1.07¼
Feb. 5	.97¼	1.07¼
Feb. 10	.98¼	1.07⅝
Feb. 17	.96¼	1.03½
Feb. 24	.96¼	1.05
Mar. 2	.98½	1.07¼
Mar. 9	.99	1.07⅝
Mar. 18	.98½	1.07
Mar. 23	.99¼	1.08¼
Mar. 30	.99¾	1.07⅝
Apr. 6	1.00¼	1.07¼
Apr. 13	1.03¼	1.09¾
Apr. 20	1.04¼	1.13⅝
Apr. 27	1.05	1.16¾
May 4	1.04½	1.16¼
May 11	1.04¼	1.18¼
May 18	1.03¾	1.14⅞
May 25	1.04¼	1.15½
June 1	1.03¼	1.12¾
June 8	1.05¾	1.15⅛
June 15	1.06	1.11
June 22	1.08	1.12⅛
June 29	1.08¾	1.12¼
July 6	1.06	1.10¼
July 13	1.09	1.11⅛
July 20	1.06½	1.04⅝
July 27	1.07	1.05¾
Aug. 3	1.07	1.07⅝
Aug. 8	1.07	1.05⅝
Aug. 17	1.06½	1.08¾
Aug. 24	.....	.99⅝
Aug. 29	1.05	.98¼
Sept. 7	.....	.87½
Sept. 14	.96	.90¼
Sept. 21	.95½	.91⅛
Sept. 28	.90	.88½
Oct. 4	.90¼	.91
Oct. 12	.92¾	.91¾
Oct. 18	.90¼	.87¾
Oct. 24	.90¼	.90¼
Nov. 1	.87½	.86¼
Nov. 9	.86½	.88½
Nov. 16	.83	.84¼
Nov. 23	.80½	.83⅛
Nov. 30	.79	.82
Dec. 7	.79¼	.83
Dec. 14	.79¾	.82⅝
Dec. 21	.81	.83
Dec. 28	.81½	.83⅛
1913.		
Jan. 4	.81½	.84½
Jan. 11	.82½	.87
Jan. 17	.83½	.88⅝
Jan. 25	.81¼	.86⅝
Feb. 1	.83½	.87⅝
Feb. 8	.84½	.88⅝
Feb. 14	.83½	.86½
Feb. 21	.84¾	.87½
Feb. 28	.85¼	.87⅝
Mar. 8	.85½	.85⅝
Mar. 14	.85⅝	.84¾
Mar. 20	.85¼	.85⅝
Mar. 29	.86⅝	.86½
1913—Continued.		
Apr. 5	$0.88¼	$0.88¼
Apr. 12	.89¾	.87¼
Apr. 19	.91¼	.90
Apr. 25	.93⅝	.91⅛
May 3	.93	.90¼
May 10	.93½	.91¼
May 17	.92½	.90¼
May 23	.94¼	.92½
May 31	.94¾	.91
June 7	.96¾	.91¼
June 14	.98¼	.93¾
June 21	.98	.93
June 27	.97½	.93¼
July 3	.97¼	.93¼
July 12	.97	.89¾
July 19	.96	.90¼
July 26	.95½	.89¼
Aug. 2	.96¼	.89¾
Aug. 7	.96¼	.89¼
Aug. 16	.91½	.90¼
Aug. 23	.90	.89¾
Aug. 28	.93¾	.87
Sept. 6	.88¾	.89¼
Sept. 13	.87½	.89
Sept. 19	.86	.87½
Sept. 27	.83	.81¼
Oct. 4	.81¾	.85¾
Oct. 11	.81½	.86
Oct. 17	.78¾	.82½
Oct. 25	.79¼	.84½
Nov. 1	.81½	.83⅝
Nov. 8	.81¼	.83⅝
Nov. 15	.84½	.85⅝
Nov. 22	.85	.85½
Nov. 29	.82½	.84½
Dec. 5	.84½	.87½
Dec. 13	.83½	.87½
Dec. 20	.82½	.87½
Dec. 27	.....	.85½
1914.		
Jan. 3	.84½	.88½
Jan. 10	.84¾	.88¼
Jan. 17	.85¼	.88¼
Jan. 23	.86¼	.89½
Jan. 31	.85½	.90
Feb. 6	.87½	.91½
Feb. 14	.88¾	.93½
Feb. 21	.90¾	.94⅝
Feb. 28	.91¼	.94
Mar. 7	.89¾	.92½
Mar. 14	.89¼	.93½
Mar. 21	.90¾	.94½
Mar. 28	.90¼	.93¾
Apr. 4	.89¾	.91¾
Apr. 11	.89⅝	.91½
Apr. 18	.89¼	.92¼
Apr. 25	.91¼	.94½
May 2	.91¼	.92½
May 9	.93½	.94
May 16	.95	.95¾
May 22	.94⅝	.95⅝
May 29	.94¾	.94½
June 6	.96	.95
June 13	.93	.92¾
June 20	.91¾	.91
June 27	.88¾	.87¾
July 3	.89¾	.91½
July 10	.90¼	.90¼
July 17	.89¾	.90¼
July 24	.92¼	.95¼
July 31	.95½	.96½
Aug. 6	1.00¼	1.08
Aug. 14	1.05¼	1.09⅝
Aug. 21	1.06⅝	1.11
Aug. 29	1.12¾	1.18¾
Sept. 4	1.20¼	1.29½
Sept. 11	1.13	1.11⅝

	Winnipeg.	Minneapolis.		Winnipeg.	Minneapolis.
1914—Continued.			**1915—Continued.**		
Sept. 16	$1.11	$1.12½	May 8	$1.59	$1.56½
Sept. 25	1.09⅝	1.08¾	May 15	1.59⅛	1.57¼
Oct. 2	1.04⅞	1.06½	May 20	1.58⅞	1.61¼
Oct. 8	1.08¾	1.09¼	May 29	1.46¼	1.52½
Oct. 17	1.15¾	1.13¼	June 4	1.38½	1.43½
Oct. 24	1.17¼	1.14¾	June 12	1.22	1.30¼
Oct. 31	1.16¾	1.14¼	June 19	1.20¾	1.31¼
Nov. 7	1.20¾	1.17¾	June 26	1.30	1.34½
Nov. 14	1.19	1.16¼	July 3	1.31¼	1.41
Nov. 21	1.19⅞	1.15¾	July 10	1.34¼	1.43
Nov. 28	1.16½	1.15¾	July 17	1.39½	1.48½
Dec. 5	1.17¼	1.19⅝	July 24	1.39¾	1.51¼
Dec. 12	1.17¼	1.19	July 31	1.27	1.45⅝
Dec. 19	1.20¾	1.22¾	Aug. 5	1.32	1.50½
Dec. 24	1.21¼	1.26⅝	Aug. 14	.....	1.51¼
Dec. 31	1.22½	1.26⅝	Aug. 21	1.00⅝	1.07⅝
			Aug. 28	.96¾	1.20½
1915.			Sept. 2	.97	1.04¼
Jan. 9	1.32	1.37½	Sept. 11	.94	1.00⅝
Jan. 16	1.38	1.34½	Sept. 18	.94¾	.99⅝
Jan. 23	1.38¾	1.42⅝	Sept. 25	.94	.99⅝
Jan. 30	1.45¾	1.49½	Oct. 2	.89¾	.98¼
Feb. 6	1.55¼	1.56½	Oct. 7	.95½	1.06¾
Feb. 13	1.48¾	1.49⅝	Oct. 16	1.04	1.09½
Feb. 20	1.56⅝	1.54¼	Oct. 23	.95¼	.97⅝
Feb. 27	1.52½	1.49⅝	Oct. 30	1.00	1.00⅝
Mar. 6	1.40	1.39½	Nov. 5	1.04¼	1.01⅝
Mar. 13	1.51	1.52¼	Nov. 13	1.06	1.04½
Mar. 20	1.52	1.53¼	Nov. 20	1.01	1.03⅝
Mar. 27	1.45¾	1.46⅝	Nov. 27	1.01¾	1.02
Apr.	1.50¼	1.52¾	Dec. 6	1.08¼	1.11¼
Apr. 10	1.50¼	1.52¼	Dec. 11	1.05½	1.09⅝
Apr. 17	1.58¾	1.61¼	Dec. 18	1.10½	1.15½
Apr. 24	1.63¾	1.64¾	Dec. 24	1.16¾	1.23⅝
Apr. 30	1.62⅛	1.58¾	Dec. 31	1.15	1.21⅝

Mr. MacMillan. That is all I have to say, Mr. Chairman.

Mr. Voigt. You are an officer of the exchange?

Mr. MacMillan. Yes, sir; I am vice president.

Mr. Voigt. Can you give any information on the questions that I asked Mr. Van Dusen as to the percentage of contracts made that actually result in the delivery of grain?

Mr. MacMillan. No; I can not give you that, but I think you can get it from the Federal Trade Commission. I think they covered that in their investigation.

Mr. Voigt. Do you know what they say about it?

Mr. MacMillan. No; I have not seen their report.

Mr. Voigt. Have you any personal opinion on that subject?

Mr. MacMillan. It is very small. But I think I understand that it is a good deal like the question of how many debts can you pay with a dollar bill. The same contract circulates repeatedly. For example, if I would sell 5,000 bushels of wheat to A, and the next day I would buy 5,000 bushels from B, as far as the clearing house is concerned, my transactions balance, and the contract, for their records, is then between A and B. And that process goes on repeatedly, so that the same contract would be traded in over and over and over again.

Mr. Voigt. That is the point I am referring to. I would like to know approximately how many there are. Suppose there were 10,000 contracts made in one day on the exchange, how many of those would result in the delivery of the actual commodity dealt in?

Mr. MacMillan. I could not answer that question.

Mr. VOIGT. Have you any judgment or opinion to express on that?

Mr. MACMILLAN. It would be very small.

Mr. VOIGT. What would be your best guess in percentage?

Mr. MACMILLAN. I have no idea.

Mr. VOIGT. Would you say 10 per cent?

Mr. MACMILLAN. I would not undertake to say. I should doubt if it would be 10 per cent.

Mr. WILSON. Isn't it true that some days it would be greater than others?

Mr. MACMILLAN. Well, the delivery is made in the particular delivery month. It would have nothing to do with the trade to-day. If we were trading to-day it would be, for example, for delivery in the month of March, and that delivery could then be made at any time during that month .

Mr. VOIGT. When a man makes a contract of sale for May delivery, we will say, the delivery can be made and he has the whole month of May to deliver it in?

Mr. MACMILLAN. Yes, sir.

Mr. VOIGT. Is he at liberty to deliver on any day of that month?

Mr. MACMILLAN. On any business day in that month; yes, sir.

Mr. VOIGT. That is all I want to ask you.

Mr. DICKINSON. Are you a member of the Cargill Commission Co.?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. They are members of the exchange?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. You are vice president of the chamber of commerce?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. Membership in the Chamber of Commerce of Minneapolis is fixed at what price?

Mr. MACMILLAN. At any price the buyer and seller can agree upon. The exchange itself will issue a membership to anyone upon the payment of $15,000, provided he can comply with the other requirements.

Mr. DICKINSON. What are the privileges of that man or that firm as a member of the chamber of commerce?

Mr. MACMILLAN. To trade on the exchange with other members.

Mr. DICKINSON. Did you originally have what has been called an initiation fee besides the membership fee?

Mr. MACMILLAN. That is the only fee I know anything about. There is a small fee for the transfer of memberships and so on, but I do not remember what it is.

Mr. DICKINSON. Are you familiar with the provisions of chapter 9?

Mr. MACMILLAN. I have not a copy of the rules before me.

Mr. DICKINSON. In which it says the initiation fee is fixed at $7,500?

Mr. MACMILLAN. Oh, that has been raised to $15,000.

Mr. DICKINSON. That has been raised to $15,000?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. What is considered the present value of a membership on the board; is it this initiation fee you have suggested?

Mr. MACMILLAN. No; that is the price at which the exchange will issue new memberships. At the present time I should imagine they are worth about $6,000.

Mr. DICKINSON. Then the total expense of a firm or an individual getting a membership in the Minneapolis Chamber of Commerce would be, approximately, $6,000 and the $15,000 initiation fee?

Mr. MACMILLAN. Oh, no; there would be no $15,000. That $15,000 would be in case a new membership was issued by the exchange itself. It would really be $6,000.

Mr. DICKINSON. There has been mentioned here what is called a clearing house association. Are all members of your chamber of commerce members of the clearing association?

Mr. MACMILLAN. No, sir.

Mr. DICKINSON. Does the clearing association provide for clearing all transactions on the exchange through the clearing house?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. I will read section 1:

All transactions made in grain during the day shall be cleared through the clearing association, unless otherwise agreed upon by the parties to the transaction.

The statement of the former witness that the records of the clearing house would give you data covering future transactions on your exchange, would not be correct, would it?

Mr. MACMILLAN. I do not believe I understand your question. I believe it would be correct.

Mr. DICKINSON. Do not you see that your rules provide that if the parties to the transaction agree upon another method of settlement they do not need to go to the clearing house at all? That is not a fact, then?

Mr. MACMILLAN. It would be very seldom that any such transaction as that would be availed of.

Mr. DICKINSON. Do you think all members of your exchange do make their settlements directly through the clearing house?

Mr. MACMILLAN. Yes, sir; as far as I know.

Mr. DICKINSON. You began trading in futures on your exchange how many years ago?

Mr. MACMILLAN. I could not answer that question.

Mr. DICKINSON. I would like to know whether or not since barley and rye have gone into the future market on your exchange they have shown a more stable price or a more fluctuated price than they did prior to that time, if you have the data in mind?

Mr. MACMILLAN. I do not think I could answer that question exactly. I could simply give you the impression that they have had a stabilizing effect.

Mr. DICKINSON. The quantity of barley and rye is small?

Mr. MACMILLAN. Yes, sir; comparatively.

Mr. DICKINSON. It would be easy for a man to manipulate the market there, wouldn't it?

Mr. MACMILLAN. It would be very much easier than in oats and wheat, for example. But I have never known of anyone attempting it.

Mr. DICKINSON. How long have you been in the grain business?

Mr. MACMILLAN. For about 30 years.

Mr. DICKINSON. During that experience have you ever known a corner in rye?

Mr. MACMILLAN. Not in the Minneapolis market.

Mr. DICKINSON. Have you ever known of it in any other market; and if so, give the date?

Mr. MACMILLAN. I can not remember. There used to be trading in rye in Chicago years ago, and then it was discontinued for a long period.

Mr. DICKINSON. You know of no transactions there that were brought to the attention of the public, like the Armour manipulation of wheat, or the Leiter manipulation, or the Hutchinson manipulation, do you?

Mr. MACMILLAN. I do not remember. There was some complaint in September this year of rye about the Chicago market.

Mr. DICKINSON. But so far as you know there has never been what you might call a corner or an extreme manipulation in either of those commodities?

Mr. MACMILLAN. Not in Minneapolis. I do not pay very much attention to Chicago, so I am unable to answer your inquiries as to that market.

Mr. DICKINSON. Under the present rules as adopted by your chamber of commerce, is it not possible for a manipulator or a speculator, as you might call him, to bring influence to bear by which purchases or large sales on one or the other side of the market might be made and thereby either advance or depress the price?

Mr. MACMILLAN. I do not think so, or not for more than a comparatively short time.

Mr. DICKINSON. And how short a time would that be?

Mr. MACMILLAN. Oh, a few days.

Mr. DICKINSON. Do you have up there any such thing as double-dealing?

Mr. MACMILLAN. I do not know what you mean by that?

Mr. DICKINSON. Well, isn't it possible for a man with funds to send word to your commission house to buy one day, and to another commission house to sell the next day, and in that way the same man may be working on both sides of the market?

Mr. MACMILLAN. I suppose it would be quite possible.

Mr. DICKINSON. You have no rules to prevent that?

Mr. MACMILLAN. I do not know of any way by which we could get the information.

Mr. DICKINSON. You have no check on who your various concerns are trading for on the market?

Mr. MACMILLAN. None whatever.

Mr. DICKINSON. Would that be available through your clearing association?

Mr. MACMILLAN. No, sir.

Mr. DICKINSON. In your clearing association you simply gave the data, the amount of the sale, but not the person to whom it is transferred to?

Mr. MACMILLAN. We give the name of the other member of the chamber of commerce with whom a member dealt, but neither side gives up its customer's name.

Mr. DICKINSON. You would not know who the other member was dealing for, either in buying or selling?

Mr. MACMILLAN. No.

Mr. DICKINSON. Does your firm have any line of elevators?

Mr. MACMILLAN. Yes.

Mr. DICKINSON. About how many line elevators have you?

Mr. MACMILLAN. One hundred and thirty-five or 140.

Mr. DICKINSON. And where are the majority of them located—in Minnesota or in North Dakota?

Mr. MACMILLAN. In Minnesota, in North and South Dakota, and in Montana.

Mr. DICKINSON. You use hedging in all your elevators?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. Is that a requirement of your concern?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. And isn't it the general practice of all the large operators, that they require hedging by their elevator men?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. And that is the reason why, probably, hedging is much more used in the States of North Dakota and South Dakota than it is in other States?

Mr. MACMILLAN. I think perhaps it is more prevalent because our members have been educated to that method of doing business. Nearly all our farmer elevators or independents at some time or another in the past have been either connected with or worked in the same way, and they have people who have had previous experience in hedging. Our commission firms in financing country elevators require that they hedge.

Mr. DICKINSON. In other words, the whole system that has grown up around the chamber of commerce places the control of financing, of buying and selling, in the centralized market of Minneapolis; is that not true?

Mr. MACMILLAN. Yes, sir; that is approximately correct. There is some grain sold outside of Minneapolis, in Duluth.

Mr. DICKINSON. Would you say it was only a limited amount?

Mr. MACMILLAN. No, sir; a very considerable amount. Hedging operations are conducted either in the Minneapolis or the Duluth market.

Mr. DICKINSON. Grain sold outside of Minneapolis is hedged through Minneapolis or reconsigned or diverted to other points by Minneapolis concerns?

Mr. MACMILLAN. No; a great deal is sold direct to country mills, and some goes to the Pacific coast, and some to Kansas City, and some to Chicago, and some to the Milwaukee markets.

Mr. DICKINSON. But that is a very limited amount, isn't it?

Mr. MACMILLAN. It depends upon the section of the Northwest.

Mr. DICKINSON. What would you say as to the time of the average hedge of your company, its duration?

Mr. MACMILLAN. Well, the same hedge is transferred a great many times, and I do not know. We, for instance, will start trading in December, and later, when the March future is traded in actively, we change to March, and then again to May.

Mr. DICKINSON. What is the benefit of the long-time hedge?

Mr. MACMILLAN. There are times of car shortage when it is impossible to move grain with any due dispatch. We find, for example,

or did last year, that we would have grain in some elevators for periods of six or eight months that we could not move.

Mr. DICKINSON. Let us take the average normal conditions when grain can be moved within a reasonable time, say of 10 days or two weeks, and what would you say as to whether or not the average hedge could be consumated in 60 days?

Mr. MACMILLAN. It can if the car situation will permit.

Mr. DICKINSON. The car situation is favorable this year, isn't it?

Mr. MACMILLAN. Yes, sir; it has been since about the 1st of October.

Mr. DICKINSON. Does your firm hedge in futures for purely speculative purposes?

Mr. MACMILLAN. No, sir; we do not speculate at all.

Mr. DICKINSON. You do not speculate at all, but simply sell your hedge on grain actually bought?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. If the short-time hedge covered the average transaction of your firm, it would answer the purpose of your concern, would it not?

Mr. MACMILLAN. It would if we could be assured that the car situation would always be normal.

Mr. DICKINSON. What benefit is the speculator to you?

Mr. MACMILLAN. The speculator makes it possible for us to hedge. We can pass on to him that risk that we are not willing to assume.

Mr. DICKINSON. He never takes anything, does he, as far as receiving the actual commodity?

Mr. MACMILLAN. Not very many of them. Occasionally he does.

Mr. DICKINSON. He does not deliver anything, as far as the delivery of the actual commodity is concerned, does he?

Mr. MACMILLAN. Once in a while there is a case of that sort, but they are exceptional. The speculator is interested simply in the risk of change of values.

Mr. DICKINSON. What do you call the man who comes on the floor of your chamber up there and buys in the morning and sells in the afternoon and closes his transactions and quits for the day?

Mr. MACMILLAN. We call him a scalper.

Mr. DICKINSON. What is his benefit to the trade?

Mr. MACMILLAN. He makes it possible to trade at any moment.

Mr. DICKINSON. That is the only purpose that he has?

Mr. MACMILLAN. Without the scalper at times it would be impossible to trade.

Mr. DICKINSON. He never delivers anything?

Mr. MACMILLAN. No, sir.

Mr. DICKINSON. And never receives anything?

Mr. MACMILLAN. No, sir.

Mr. DICKINSON. His whole purpose is to simply spread the transaction over the emergency moment?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. Would a Federal statute limiting a purely speculative trade to a period of, say, 30 days, which would permit the pit scalper to operate, answer the purpose that you say the speculator fills in in your present marketing system?

Mr. MACMILLAN. I do not think it would. He would not dare to take the chance for 30 days. He assumes the contract. Now, if he assumes a contract that might be impossible of fulfillment he would not take the risk. But if you give him sufficient time when the contract can be fulfilled——

Mr. DICKINSON (interposing). Can you cite one instance where a contract was carried over 30 days, to your knowledge?

Mr. MACMILLAN. No, sir. I can cite you an instance where a speculator got in and found it difficult to get out. We had that experience in the spring of 1917, when foreign Governments had the markets of this country cornered. Then the moment that his trade was offered they would scoop it up. No one dared to sell at that time. And when they found that situation it made a very critical condition for a time.

Mr. DICKINSON. What is your explanation for the condition that resulted from May 30 to July 15, when there was no future trading in wheat? On May 30 the Government regulation expired, and from then to July 15 there was no future trading permitted on the boards of trade, and the fluctuations in wheat were less than 7 or 8 cents a bushel, and I have forgotten the exact figure; and yet after July 15, and between then and September 15, we had a fluctuation of over 30 cents and future trading had been resumed.

Mr. MACMILLAN. I can only give you my own judgment.

Mr. DICKINSON. That is all I want.

Mr. MACMILLAN. During the month of June there was practically no wheat offering. The winter-wheat crop began to move in July, and from that time on was offered in constantly increasing quantities as the harvest proceeded. There was no selling pressure to bring prices down.

Mr. DICKINSON. And you do not think the matter of future sales had anything to do with it?

Mr. MACMILLAN. No, sir; I do not. I think they had lessened the decline.

Mr. DICKINSON. That would have happened if futures had not been permitted, do you mean?

Mr. MACMILLAN. Yes, sir. I think there would have been a period when we would have had no market whatever if we had not had a future market.

Mr. DICKINSON. The speculator likes a fluctuating market?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. He deals in the market he can get, either in the rise or the fall?

Mr. MACMILLAN. Yes, sir.

Mr. DICKINSON. And yet it is your position before this committee that the speculator, who wishes a fluctuating market, produces a steady market?

Mr. MACMILLAN. Yes, sir; that is exactly the case.

Mr. DICKINSON. What is then the power of the speculator to produce fluctuations?

Mr. MACMILLAN. The fluctuations are produced by the excess of buying or selling power, as the case may be. You will find speculators on both sides of the market. Their influence tends to counteract each other.

Mr. DICKINSON. Suppose they happened to get their heads together and say: "Let us all buy to-day." Couldn't they raise the market?

Mr. MACMILLAN. How could they do that? They are scattered all over the United States.

Mr. DICKINSON. Well, they seem to do a lot of things with a considerable sort of effort?

Mr. MACMILLAN. I can not see how that would be possible.

Mr. DICKINSON. Well, as a usual thing don't you find the speculator catering to a rising market rather than to a falling market?

Mr. MACMILLAN. What do you mean by catering? More of them around on a rising market?

Mr. DICKINSON. Yes.

Mr. MACMILLAN. Yes; I think speculators are generally bullish.

Mr. DICKINSON. When grain is going up speculators are in in greater numbers?

Mr. MACMILLAN. Than when grain is declining; yes, sir.

Mr. DICKINSON. So the speculator is in evidence until the peak is reached, and then he gets out from under and lets it go as far as it will go.

Mr. MACMILLAN. You must remember that there are speculators on both sides of the market all the time.

Mr. DICKINSON. You have just admitted that the greater number are on the rising side?

Mr. MACMILLAN. But I have not admitted that the greater quantity is on the rising side.

Mr. DICKINSON. I see we will have to tie you down to both number and bushels?

Mr. MACMILLAN. Wherever there is a buyer there must be a seller. There must be a balance.

Mr. DICKINSON. Yes; but after the buyers have bought, while the margins are going up, they can get out from under and let it go. It only reaches a bottom when the consumer comes in and wants a commodity for actual consumption?

Mr. MACMILLAN. If you mean there are a greater number of buyers on rising prices than on declining prices, then I think your statement is correct.

Mr. DICKINSON. No; what I mean is that the speculator has more to do with rising prices, and that the actual consumer is the fellow who prevents a drop below a certain actual valuation.

Mr. MACMILLAN. I do not think that is correct.

Mr. DICKINSON. You do not think that is correct?

Mr. MACMILLAN. No, sir.

Mr. DICKINSON. Aren't future prices reflected in the cash, as a general rule?

Mr. MACMILLAN. Approximately, but not entirely.

Mr. DICKINSON. Have you had any troubles with cash following futures at the present time?

Mr. MACMILLAN. Cash has declined more than futures.

Mr. DICKINSON. As a matter of fact, the hedge in [illegible] to be an absolute insurance, or is it always an absol[illegible]

Mr. MACMILLAN. Not absolutel[illegible], sir.

Mr. DICKINSON. Have not [illegible]een nu[illegible] hedged their purchases with [illegible]st year

and cash did not run together, and they have lost as much on their hedge as though they had carried the original grain?

Mr. MacMillan. I do not know of any such case. The hedge only began, you will remember, the 15th of July.

Mr. Dickinson. But I have reference to previous hedges, long before the war.

Mr. MacMillan. I have no recollection of any such conditions.

Mr. Dickinson. Would pure insurance against fluctuations, carried by a legitimately organized association for that purpose, suit the needs of your company just as well and answer the same purpose that the hedging privilege now answers?

Mr. MacMillan. In what way? Do you mean a straight out insurance policy?

Mr. Dickinson. Yes.

Mr. MacMillan. I think it would if there is any way of providing it at a reasonable price.

Mr. Dickinson. Well, you do not think that that would be any greater risk than insuring a man's automobile against theft or collision, do you?

Mr. MacMillan. I should think it would be vastly greater.

Mr. Dickinson. You think the risk would be greater?

Mr. MacMillan. Yes, sir.

Mr. Dickinson. You have not looked up data on the matter of automobiles that are bumped into in Washington, have you?

Mr. MacMillan. No; but I have to pay an insurance premium myself, and I have knowledge of what they charge.

Mr. Dickinson. You do not think that that would be a legitimate field for an insurance organization?

Mr. MacMillan. I do not.

Mr. Dickinson. That is all.

The Chairman. Without a fluctuating market, there could not be any speculation, could there?

Mr. MacMillan. There would be no inducement to speculation?

The Chairman. There could not be any speculation if the price were fixed?

Mr. MacMillan. No, sir.

The Chairman. Are complete records kept of all transactions on the Chamber of Commerce of Minneapolis?

Mr. MacMillan. There are no records kept at all.

The Chairman. Have you no record of the amount of the aggregate or the volume of business transactions?

Mr. MacMillan. Not kept by the exchange; no, sir. The clearing house has a record each day of the total trades and of the members making them.

The Chairman. What record does the clearing house make?

Mr. MacMillan. I do not know whether I can answer that. I am not an officer of the clearing house, and never paid any attention to their records.

The Chairman. Is that a part of the exchange, the clearing house?

Mr. MacMillan. No, sir; it is a separate organization, but the conditions for membership are, first, that the individual, as a member of the Minneapolis Chamber of Commerce, will abide by the rules and regulations thereof, and it is organized solely to clear the trades of the members.

The CHAIRMAN. The exchange simply furnishes the building in which the operations take place?

Mr. MACMILLAN. That is all. We simply furnish a market place and quotation service to the traders.

The CHAIRMAN. How is the record kept?

Mr. MACMILLAN. The manager of the clearing association is Mr. Williams.

The CHAIRMAN. And that is independent of the exchange?

Mr. MACMILLAN. Of the chamber of commerce; yes, sir.

The CHAIRMAN. Is any complete record kept of the set-off or the ring settlements?

Mr. MACMILLAN. No, sir; that is all handled through the clearing house. Everything is brought to the close of the market each day and trades are balanced out. So, we have no ring settlements such as they have in Chicago.

The CHAIRMAN. You have no record of either one?

Mr. MACMILLAN. I do not know just in what form the records of the clearing association are.

The CHAIRMAN. Who could give that information?

Mr. MACMILLAN. I am quite sure that you could get that from the Federal Trade Commisison. They made a very exhaustive examination.

The CHAIRMAN. Any other questions?

Mr. MCLAUGHLIN of Michigan. You have heard the questions and answers here in regard to speculators and manipulators. There has been an effort made to define each and to distinguish between them. Are you able to give a definition of a speculator and of a manipulator?

Mr. MACMILLAN. I do not know whether I can give it any better than the other gentlemen did. We have been peculiarly free from manipulators in our market. We have had no attempts of that kind. But in a general way I think a manipulator is one who attempts to buy or sell more than the market would be able to take care of, and for the purpose of making it impossible to complete contracts, and therefore force a settlement.

Mr. MCLAUGHLIN of Michigan. What would you think of this definition of a speculator: One who deals under existing conditions as he interprets them but does not attempt to alter them. While a manipulator is a speculator who, by reason of the large quantities in which he deals, attempts to force artificial conditions or to exaggerate conditions for his own advantage?

Mr. MACMILLAN. I should think that was a fair definition. I am sure that it is better than I could have given you.

Mr. MCLAUGHLIN of Michigan. The speculator may be indulging in very small deals as they offer. The manipulator, under this definition, must necessarily be a man with a large amount of money, or making a show of having a large amount of money. Isn't that true?

Mr. MACMILLAN. Yes, sir; I think that is correct.

Mr. MCLAUGHLIN of Michigan. I was interested in what you said to the effect that a very small percentage of the hedges and deals by speculators led to the actual delivery of grain.

Mr. MACMILLAN. I am glad to answer that question. For example, in our own case a hedge contract would require that we would

put into store in a regular elevator the specified number of bushels and deliver the warehouse receipt. It would cost a cent and a half a bushel to get that out of the store, plus any charges that would accrue, before it was possible to get it loaded. We bring that wheat from our country elevators into the market and sell usually direct to the mill, instead of making the delivery through putting it into the storehouse; that would make an additional burden, the minimum being a cent and a half a bushel, but it would really amount to about an eighth of a cent more, that including switching and inspection charges and so on. On the other hand, there is the advantage to us and to the mill to trade these cars on the track in Minneapolis for the hedge.

Suppose, for example, we speak of 10,000 bushels, and we have 10,000 bushels of wheat hedged. Well, we have 10,000 bushels of wheat on the track. The mill has that 10,000 bushels bought. It is no advantage to either party to put that in store and allow about 2 cents a bushel in charges to accumulate. By making the trade directly—that is, by their giving us a future—we can exchange with them the cash grain and make a considerable saving.

Mr. McLaughlin of Michigan. I was interested in your answer, as I referred to it before, because my impression had been and is that there was really a very small percentage of actual deliveries, and I have been surprised—very much surprised—at the testimony of gentlemen who have insisted to us that the percentage of actual deliveries was really very large. I did not think so. I do not think it is an advantage that it should be large. Those gentlemen have stated actual conditions, and I would not say anything that would reflect at all on any of the gentlemen who have told about large deliveries, although it seems to me that some of them wanted us to believe the percentage of deliveries was pretty large.

Mr. MacMillan. Well, there are so many different angles to the grain business that it is very easy for you to get different kinds of experience. A terminal elevator buys grain and hedges it with the purpose of making delivery, and they do deliver very large proportions of the wheat that they purchase. But as far as the grain that comes directly from the country is concerned, it is frequently a decided disadvantage to have that go into the storehouse. It is to the advantage of both sides to exchange the futures and take the cash grain on track rather than in the store.

Mr. McLaughlin of Michigan. It seems to me, as far as a determination of this question by the committee is concerned, as to whether or not it would seem advisable to recommend the enactment of any of this proposed legislation, that it is absolutely immaterial as to whether those deliveries are made or were contemplated; that there is some measure of speculation, some measure of gambling in it, and really it does not make any difference how much there is. I can not see why any gentleman should try to make this committee believe there is a great lot of deliveries on this proposition.

The Chairman. We are grateful to you, Mr. MacMillan.

Mr. MacMillan. And I thank you.

The Chairman. We will now hear the next witness.

STATEMENT OF MR. A. L. SEARLE, REPRESENTING THE TERMINAL ELEVATOR GRAIN MERCHANTS' ASSOCIATION, MINNEAPOLIS, MINN.

The CHAIRMAN. What is your association?

Mr. SEARLE. It is an association that covers all the primary markets.

The CHAIRMAN. You may make your statement.

Mr. SEARLE. The Terminal Elevator Grain Merchants' Association is an association representing the terminal elevator operators throughout the United States. This brief is filed on behalf of said association in opposition to proposed legislation, the purpose of which would be to destroy or seriously interfere with the buying and selling of grain for future delivery, as practiced on leading grain exchanges throughout this country.

Among the important factors in the distribution of the crop are the terminal elevators located at the leading terminal grain markets. It is the practice of the grain producers throughout the entire West to market the bulk of their product within a few months after the harvest and several times as fast as the actual consumptive demand during that period. The function of the terminal operator at the terminal markets is, in addition to storing grain for others, to purchase and store the surplus grain receipts during the heavy crop-moving period from September 1 to December 31 of each year, and to hold the same until needed by flour millers, linseed-oil crushers, and others. The terminal elevator operators are therefore very large buyers of grain, and their importance as buying agencies is not fully appreciated.

Practically all of the grain purchased by terminal elevator operators during the heavy-crop moving period and carried by them until the following spring or summer, is purchased with money borrowed from banks or others, and the security furnished for these loans is represented by terminal warehouse receipts.

These receipts are negotiable and are extremely serviceable as collateral in obtaining loans. The regulations governing terminal elevators vary somewhat in the different markets. In Minneapolis, for example, operators of public terminal elevators must be licensed by the railroad and warehouse commission of the State of Minnesota and must furnish a bond in the sum of 15 cents per bushel on the capacity of the elevator for the protection of holders of warehouse receipts. In addition the elevator operator must furnish daily reports to the State registration department, showing all cars unloaded into and loaded out of the terminal elevator and the amount of each grade of grain on hand at all times and the amount of warehouse receipts outstanding against same. All warehouse receipts must be precisely in the form prescribed by the statute and must be numbered consecutively and must be registered with and later canceled by by the State registration department. In addition the Chamber of Commerce of Minneapolis employs an inspector who continuously estimates the quantity of each kind and grade of grain in these elevators as an additional safeguard to the holders of warehouse receipts. All of these safeguards have resulted in terminal warehouse receipts representing the highest form of collateral

security, and loans carrying this collateral bear the lowest rate of interest.

But the most important feature which enters into the collateral value of terminal warehouse receipt is the fact that the grain represented thereby is invariably hedged by a sale for future delivery, and the terminal elevator operator therefore has shifted the speculative hazard which he would otherwise have to assume. The banks loan many millions of dollars to the terminal elevator operators on the security of the terminal warehouse grain receipts, on the definite understanding that the terminal elevator operator will not assume the speculative hazard incident to the ownerships of this grain but will shift this hazard to the professional speculator by a sale for future delivery. The terminal elevator operator is able to secure, in general, 90 per cent of the value of the grain, first, because the grain is fully hedged by sales for future delivery; and, second, because the leading grain exchanges furnish a continuous market always available to the holder of grain, either as the actual owner or as collateral.

Terminal elevator operators insure themselves against loss through decline in price of the grain which they have stored by selling a future against the same as a hedge in precisely the same manner as they purchase insurance from fire insurance companies to protect the grain which they hold from the fire hazard.

The terminal-elevator operator is only one of the links in the chain of distribution from the producer to the ultimate consumer. As one of these links, and one of the most important, attention should be directed to the fact that the grain is commonly carried by terminal-elevator operators from the heavy crop-moving period in the fall until the following spring or late summer for an exceedingly narrow margin of profit, both gross and net. It is well known to all those engaged in grain or milling business that the narrow margin on which the terminal-elevator owners is able to operate is entirely due to the existence of future markets and to the security which this affords to the terminal-elevator operator in the conducting of his business. Were the future markets no longer available and the terminal-elevator operator compelled to purchase the surplus receipts in the heavy crop-moving period in the fall and assume the risk of loss through a decline in the price, the result would be that terminal-elevator operators of limited resources would be compelled to entirely discontinue business. Operators of very large resources and credit might be able to operate to a much more limited extent, but would necessarily require a much wider gross margin of profit. Money would be available to the terminal-elevator operators in much smaller quantities, and a very much smaller percentage of the actual value of the grain would be loaned by the banks as compared with the percentage now loaned. The rate of interest would necessarily be very much higher and the increased hazards and increased interst charges, etc., would necessarily widen out materially the cost of distribution by the terminal-elevator operators.

The practice of future trading is intimately interwoven with every branch of the grain and milling business. Its destruction would produce a revolution in the methods which have prevailed for years in the distribution of the grain crop of this country. The destruction of future trading would require a complete readjustment of methods on the part of all branches of the grain and milling busi-

ness. It is the belief of competent observers that the destruction of future trading would necessarily eliminate from the grain and milling business those of limited resources and that in all probability the grain and milling business would immediately begin to drift into the hands of a limited number of concerns of large financial resources and that in general the grain and milling business would take on the aspect now presented by the packing industry.

In many terminal markets the terminal elevator operators constitute by far the largest buying power. Even in the flour milling center of the magnitude of Minneapolis, the terminal operators furnish a market for more than half the grain which comes to Minneapolis. If the operations of the terminal elevator operators in the terminal markets of this country were seriously impaired, the effect upon the price of grain must necessarily be disastrous unless the producer changes completely his method of marketing the crop. In large sections of the grain-producing territory the producer must necessarily market a large portion of his crop in a few months following the harvest. This necessity arises both from lack of funds necessary to finance over a longer period and also from lack of storage facilities upon the farm. No factor in the grain trade would be affected more adversely by the destruction of future trading than the terminal elevator operator and the elimination or material reduction in the activities of terminal-elevator operators during the heavy crop-moving period would, under existing conditions, result in a supply of grain arriving at the terminals two or three times greater in volume than the consumptive demand therefor. Under these conditions it is manifest that grain would be sacrificed in an enormous degree through the absence of the price-making factors represented by the terminal-elevator buying interests.

The Terminal Elevator Grain Merchants' Association is unanimously of the opinion that the general effect of future trading, as conducted on the leading grain exchanges of the country, is to moderate the violence in fluctuations of price and to materially narrow the cost of distribution or the spread between the price paid to the producer and the price paid by the ultimate consumer on account of the safety and security which the existence of these future markets introduces into every branch of the grain, milling, and linseed oil business.

The CHAIRMAN. Any questions, gentlemen of the committee?

Mr. MCLAUGHLIN of Michigan. It has been stated here that in Kansas, and I believe perhaps in Nebraska and other States in that part of the country, very, very few elevator men, whether operating farmers' elevators, line companies, or commercial elevators, resort to hedging, whereas in North and South Dakota and in Minnesota a different condition exists, and nearly every elevator owner and elevator company resort to or indulges in hedging. Some one has suggested that the reason the elevator companies in the northern part of the country indulge in hedging is due to the fact that there are very strong exchanges up in Minneapolis and Duluth, and that the method of business is controlled by those exchanges, and that it is necessary for the country and line elevators to resort to hedging, and that perhaps otherwise they would not do it; that they might prefer to do as their southern brothers do, and might be better off if they

were permitted to do as the southern man does. What do you say about that?

Mr. SEARLE. Well, I am rather of the impression that that statement, that the southern elevator operators do not hedge, is due to a misconception of the term. The custom is somewhat different in the Southwest from that in the North, to this extent, that in the Southwest the terminal elevator operators bid the country for grain. If a country elevator operator accept a bid for cash grain he is hedging, just the same as the northern operator is when he sells a future; he has a protection on that bid just the same. But the terminal elevator operator makes a country bid and buys the grain and sells a future to protect himself on that bid.

Mr. MCLAUGHLIN of Michigan. It was said that there were no marked differences between hedging and dealing in futures, I think, and that the people in Kansas use neither, at least to any large extent?

Mr. SEARLE. I do not so understand from what someone read from a record here.

Mr. MCLAUGHLIN of Michigan. I may have misunderstood it.

Mr. SEALE. I may, too; but I so understood it.

Mr. MCLAUGHLIN of Michigan. My understanding of the methods of doing business in the two sections of the country are that they are entirely different?

Mr. SEARLE. That may apply to the country elevator buyer and not be disastrous—I mean that if we applied it to the country buyer and he didn't hedge that it would not affect the general situation as it would to stop trading in futures, because the country elevator operator can now send his grain to the terminals and dispose of it as fast as it comes in, because when there is a surplus the terminals will buy and they can store it and sell a hedge against it and carry it until the mills come into the market.

I would like to say that the general impression is that if you stop future trading in this country you may do something that will affect the price one way or the other. You must take into consideration that we are a surplus-producing country, and our price is not settled by what we consume here. In Winnipeg there is a market that handles more wheat than any other market on this continent, and they trade in futures, and to stop trading in futures here will not stop it there. We have surplus grain to dispose of, and trade and commerce flows in the direction of least resistance. England, for instance, which is the largest importer of wheat in the world, when they come into the market and make an offer an exporter in this country can step into the market, as it is now, and cover the offer he may have for 100,000 bushels or 200,000 bushels, or 500,000 bushels of wheat, and cover it quickly, so that he may handle it on a narrow margin of profit. But if he has to look around some place where he can buy this cash wheat, in small lots say, of 25,000 or 50,000 bushels perhaps, it would take a day of two and maybe longer for him to buy it. The result would be, I think, that the trade would flow in the direction of Winnipeg, where the order could be put in and covered immediately. Canada is our greatest competitor in wheat importation. They have practically 200,000,000 bushels to export, what we have in a normal crop. The price is not made on the crop but on the surplus. So that if we have not an opportunity to handle

our trade so that we can keep up a constant flow of business we are going to have a great deal of difficulty in disposing of our surplus crops.

Mr. McLAUGHLIN of Michigan. Is the idea universally accepted that the surplus crop controls the market?

Mr. SEARLE. I do not know how universal it is, but that is my opinion.

Mr. McLAUGHLIN of Michigan. You know there is a difference of opinion held by some on that point.

Mr. SEARLE. Undoubtedly. We can not continue accumulating our surplus. We have to dispose of it from year to year.

Mr. McLAUGHLIN of Michigan. Have you heard any complaint on the part of those northern small dealers, elevator men, to the effect that they find it necessary, against their wishes, to conform to the methods of business adopted by the exchanges at Minneapolis and Duluth?

Mr. SEARLE. I have not heard any general complaint.

Mr. McLAUGHLIN of Michigan. General complaint is a relative term. Is there any considerable complaint that they would like to do it otherwise, but that to do it, on account of the methods of business in Minneapolis and Duluth, would cause difficulty?

Mr. SEARLE. I do not hear of it.

Mr. McLAUGHLIN of Michigan. I think I am right in what I am saying, that the business is done differently in the South from what it is in the North—I mean in Kansas on the one hand and in Minnesota and the Dakotas on the other. That is all.

The CHAIRMAN. Mr. Voigt, any questions?

Mr. VOIGT. Do these terminal elevators buy all the grain that goes into them?

Mr. SPEARLE. Well, they buy quite a large portion of it in the West. In the East, of course, they do not. Grain that comes down to the elevators in Buffalo and to seaport towns is bought by exporters, and they do almost entirely a warehousing business.

Mr. VOIGT. You are connected with the Minneapolis Exchange?

Mr. SEARLE. Yes, sir.

Mr. VOIGT. You buy the most of the grain that goes into your storage?

Mr. SEARLE. Yes, sir; 95 per cent of it, I would say.

Mr. VOIGT. You issue a warehouse certificate practically to yourselves?

Mr. SEARLE. Yes, sir; that is what, in effect, it amounts to. We are allowed under the State law of Minnesota to store grain for ourselves in a public warehouse. We store that in special bins.

Mr. VOIGT. Have you any idea how many times a bushel of wheat changes hands between the producer and the ultimate consumer?

Mr. SEARLE. The actual wheat, do you mean?

Mr. VOIGT. I mean in the shape of contracts?

Mr. SEARLE. Contracts in futures and so on?

Mr. VOIGT. Yes.

Mr. SEARLE. I have no idea; but many times.

Mr. VOIGT. Have you any guess on that subject?

Mr. SEARLE. No; I could not make a guess on it. It is many times, but I would not think it would make much difference.

Mr. VOIGT. Would you say a hundred times, to take a period of years?

Mr. SEARLE. I could not make a guess on that. It would be no use of my trying. I have thought of it many times, but I have no idea how many times it is.

Mr. VOIGT. You think it is a great many times?

Mr. SEARLE. Yes, sir; I should say so.

Mr. VOIGT. Assuming that a bushel of grain; wheat, for instance, changes hands a hundred times. Every time there is a buy or a sell, of course, every person that it passes through, you might say, would put on a charge of one-fourth of a cent a bushel?

Mr. SEARLE. Well, that is to a nonmember. But one-eights of a cent a bushed is the charge to a member of the exchange.

Mr. VOIGT. The man who speculates is generally not a member of the exchange, is he?

Mr. SEARLE. Well, I would not want to say that.

Mr. VOIGT. The most of these gentlemen who have appeared here claim they are not speculators, but simply go-betweens, you might say.

Mr. SEARLE. They are not, but there are other men who are operating on exchanges who do not claim that.

Mr. VOIGT. Assuming that they are all acting in the capacity of commission merchants.

Mr. SEARLE. All right.

Mr. VOIGT. And assuming that a bushel of grain changes hands 100 times, that would mean a charge of 25 cents for the turnover of 1 bushel of wheat, wouldn't it?

Mr. SEARLE. Well, if they were all nonmembers; yes.

Mr. VOIGT. Assuming that they are all nonmembers?

Mr. SEARLE. All right.

Mr. VOIGT. That 25 cents is an actual loss to the Nation, is it not? It represents no production of any kind?

Mr. SEARLE. That is not the big volume of business that is done on the exchanges, you know. There is a spreading on the exchanges that is in very large volume, that is done by spreaders in the market, and they get a return business, so that it is not a charge, it is only a charge on their judgment, and a small one.

Mr. VOIGT. The man who spreads, does he pay this commission?

Mr. SEARLE. He may be in business himself. He may be in the Minneapolis market, and he may think that market is low as compared with Chicago, and he might buy 100,000 bushels in Minneapolis and sell it to Chicago. He may be a member of the Chicago exchange, and he pays the nonmember rate, and probably he gets reciprocal business back in the Minneapolis market. So, really, it is not costing him anything, you see.

Mr. VOIGT. The most of the speculating done on your boards is done by outsiders, isn't it?

Mr. SEARLE. We are not in the commission business, so really I could not say as to that.

Mr. VOIGT. Assuming that a bushel of wheat would change hands a hundred times among outsiders, men who are not members of any exchange; that would mean that some member or members of that exchange would plead a tax, you might say, of 25 cents per bushel for the hundred changes made?

Mr. SEARLE. Well, that is what it figures out at, a quarter of a cent.

Mr. VOIGT. That represents an economic loss to the nation at large, does it not?

Mr. SEARLE. It would if it were a fact.

Mr. VOIGT. I am assuming that to be a fact in the absence of any different information. Whether you say it is 50 times or 80 times or 100 times, whatever that commission amounts to in all those sales and buys, it is an economic loss. It represents no commodity and represents no product?

Mr. SEARLE. Well, it would result in that loss to the people who made the trades. I do not see how it would have any effect on the producer.

Mr. VOIGT. I am not talking now for the producer. You might say that that is so much wasted energy to the nations. For instance, the man who insures a house for $1,000 that is worth $1,000, if the house burns and he gets his insurance money he is nothing out. But the destruction of that house is a loss of $1,000 to the Nation as a whole, is it not? There is that much property in the Nation?

Mr. SEARLE. He has had protection for the premium he has paid, if he does not suffer a loss. You might figure it the same way as to the speculator when he takes on this grain. You might say it is an economic loss to him who is providing insurance to the terminal elevator company, mill, or somebody else.

Mr. VOIGT. The point I am trying to make is that this insurance you gentlemen speak of, by way of hedging on all these future contracts, is, after all, a very heavy tax on the people of this country, as represented by the commissions paid, and that go up in smoke and represents nothing?

Mr. SEARLE. Well, insurance premiums are a heavy tax, but if you do not have a fire loss, it is a protection.

Mr. VOIGT. A premium of insurance is an altogether different proposition as against these vast commissions. If you assume that a bushel of grain changes hands 100 times, by outsiders, that means a loss to this Nation somewhere of 25 cents per bushel, I figure it. It represents nothing.

Mr. SEARLE. Well, on that assumption you could make some large figures. Of course, you are assuming 100 times at a quarter of a cent each.

Mr. VOIGT. I saw the statement here to-day, made by some gentleman in Chicago, who claimed that he was told that in the year 1915 every bushel of wheat in this country had changed hands 157 times. I do not know how reliable that is, but assuming that that is so——

Mr. SEARLE (interposing). That would be an average of over 500,000,000 a day for the year.

Mr. VOIGT. That is what this gentleman said in this statement that has been circulated here.

Mr. SEARLE. All right.

Mr. VOIGT. Assuming that that is so, that means an economic loss to the people of this country of something like 38 cents or 39 cents for every bushel of wheat grown, and it seems to me that it is a very high premium for the people of this country to pay for this so-called insurance.

Mr. SEARLE. Well, I do not think that it is any loss. If one man pays it out another man gets it, doesn't he, and there is no loss. There is no less property in the country, is there?

Mr. VOIGT. It is a so-called nonproductive service which results in nothing in the way of wealth to the country at large.

Mr. SEARLE. We do not admit that. We contend that that provides an insurance for carrying this crop.

Mr. VOIGT. I say, assuming that it does provide insurance, and assuming that this bushel of wheat has changed hands 157 times, it is a very heavy insurance premium on the price of the wheat.

Mr. MCLAUGHLIN of Michigan. Taking 100 men trading on the exchange every day in the year and swapping dollars, at the end of the year they would be in the same position they were before, or they might be. But you have lost the services of those men in some productive industry. They might have been building roads.

Mr. VOIGT. The point I am trying to make is this, that when those men swap dollars, every time they swap somebody shaves off a quarter of a cent, and if they swap long enough the dollar will all be gone. You see, this commission amount comes in every time they swap a dollar, and there is shaved off this quarter of a cent; that is, assuming that the grain is a dollar a bushel.

The CHAIRMAN. That is true of insurance companies, too.

Mr. VOIGT. Yes; but the average insurance premium is nothing like that.

Mr. SEARLE. I think if you could figure out the net profits made by the insurance companies it would be so large as compared with the net commissions received by the commission houses that it would take a microscope to see these net commissions.

Mr. VOIGT. It may be that the average man in the grain business and who is a member of the exchange is not making any undue profit. I am not charging that. I am only trying to make the point that all these commissions that are paid result in a huge economic loss to the Nation. They use up a lot of energy that results in no production. That is all.

The CHAIRMAN. How many hands does cash wheat pass through; have you any idea?

Mr. SEARLE. No; I have not.

The CHAIRMAN. First the farmer, then the farmers' elevator, and then where?

Mr. SEARLE. Well, the farmer sells it to the country elevator station, and the country elevator ships it in to the terminal elevator, and then perhaps the commission man handles it. If it goes to Duluth it may go into the hands of an exporter. I should say there is an average of four hands it goes through from the producer to the miller.

The CHAIRMAN. Possibly half a dozen times to reach the consumer?

Mr. SEARLE. Yes, sir; possibly so, from the producer to the consumer.

The CHAIRMAN. I understood you to say that the State laws of Minnesota required an inspection of all wheat that enters into terminal elevators?

Mr. SEARLE. Yes, sir.

The CHAIRMAN. What inspection is it, the Federal inspection?

Mr. SEARLE. We have a State inspection in Minnesota, but it conforms to the Federal grades.

The CHAIRMAN. Does that rule apply everywhere?

Mr. SEARLE. No; it does not apply everywhere. At some places they are using the Federal grades entirely.

The CHAIRMAN. In a number of States it is not required?

Mr. SEARLE. No, sir.

The CHAIRMAN. How many States require Federal inspection?

Mr. SEARLE. I could not say just how many.

The CHAIRMAN. Does that state the quantity and the quality as well?

Mr. SEARLE. Yes, sir; the quantity and quality are inspected. That is, the grades are inspected.

The CHAIRMAN. Does it state by what inspection?

Mr. SEARLE. Yes, sir; it does.

The CHAIRMAN. Under the Federal standard?

Mr. SEARLE. Yes, sir.

The CHAIRMAN. That is all. We are very grateful to you, sir.

Mr. SEARLE. And I wish to thank you.

STATEMENT OF MR. A. A. HAAGENSON, BARNESVILLE, MINN.

Mr. HAAGENSON. Mr. Chairman and members of the committee, my object in appearing before this committee to-day is to represent myself as a country elevator operator, and also as a producer of grain in the Red River Valley of Minnesota, and to enter my protest against the enactment of a law that would prohibit or restrict trading in futures in the principal markets of this country.

I feel that in order to be successful in buying grain from the farmers at a country elevator it is absolutely necessary to have the opportunity of selling it at the same moment or the next day in the terminal markets for future delivery.

The elevators that we operate there at Baker, Minn., and at Kent, Minn., are right in the heart of the wheat district—one of them principally; the other is in the oats district rather exclusively. The one at Baker is the one that handles mostly oats and barley. We buy oats from the farmer during the fall months whenever he wants to sell them during the fall months, and we store them, and have for the last four or five years carried the oats in the elevator at Baker until the winter and spring months, and then merchandise it out to the different stations in North Dakota and Minnesota.

If it had not been for the fact that we have been able to hedge that oats in the Minneapolis market, we would not have been able to handle the oats that way, because our means do not permit us to buy a great quantity of oats and store them in our own elevator under our own direction and supervision unless we were willing and able to show the banker or the man we borrowed the money from to buy the oats that we were absolutely safe as far as the price was concerned at the time we could sell them. The reason we are merchandising them out north and east of us is because we are enabled then to get the Minneapolis price for them at our station.

The elevator at Kent handles wheat, and we are buying it and selling it in the market, buying futures from day to day as we buy wheat and as we buy it in 1,000-bushel lots. And I feel it is abso-

lutely essential for the country elevator operator, whether he is a farmer's house or an independent, to have the protection of future trading.

As Mr. Searle said a moment ago, the Winnipeg market is open for future trading, and probably will continue to be so. We are near the Canadian line. We are on the line that runs to Winnipeg, and it is my best judgment that in the case the markets in Minneapolis and Chicago are eliminated as future trading stations for us we would go to the Winnipeg market and sell our wheat and our oats for future delivery until we were able to get them there and sell them on the cash market.

I have not any reason to feel but that this committee is perfectly willing to give everyone what is right; that that is all they look for, to see that both the farmer and the producer and the elevator operator, whether they are large or small, and the consumer, are getting what is right. And I feel that under the present system as it exists to-day and has existed for a long time in this country it is perhaps as good as could be had. The pending bills, as I understand them—and I have read some of them—do not particularly propose anything that is radically different, or do not propose any new system for the handling of this grain business, and until they do that I feel that there should not be any change in it.

As I said in the beginning, I own some land up there and raise some wheat and oats, and I feel just the same way as the producer.

I think that is all I care to say.

The CHAIRMAN. Mr. HcLaughlin, have you any questions?

Mr. McLAUGHLIN of Michigan. None.

The CHAIRMAN. Mr. Voigt?

Mr. VOIGT. I have none.

The CHAIRMAN. Mr. Haagenson, you hedge?

Mr. HAAGENSON. I do; yes.

The CHAIRMAN. It is the usual requirement in that business to sell on arrival, is it not?

Mr. HAAGENSON. In the case of the oats it would be practically impossible, because I do not sell oats on the Minneapolis or Duluth markets. As far as wheat is concerned, the to-arrive market is practically always on a 20-day basis.

The CHAIRMAN. You consider it absolutely safe, do you, to buy and sell, or to sell and buy, when you have the opportunity of hedging?

Mr. HAAGENSON. Why, it is as near safe as it is possible to make it. There is always some element of chance to a certain extent, but you eliminate it as far as possible.

The CHAIRMAN. You receive the farmers' wheat in December?

Mr. HAAGENSON. I buy it.

The CHAIRMAN. You receive it for storage?

Mr. HAAGENSON. Yes.

The CHAIRMAN. We will say the price is $1 a bushel, and you hedge for May. May future is $1. Now, suppose January cash wheat jumps up 12 or 15 cents, then what? The farmer is entitled to $1.15, is he not? And your hedge is on the basis of $1.

Mr. HAAGENSON. I do not quite understand your question.

The CHAIRMAN. The farmer delivers a thousand bushels of wheat in December. The cash price is $1 a bushel, and the future price is

$1 for May. You buy a thousand bushels, and you ship a thousand bushels and sell it.

Mr. HAAGENSON. That is the part of the question I did not get.

The CHAIRMAN. You buy a thousand bushels for May. In the meantime the May wheat remains the same, but the cash goes to a premium of 15 cents in January, and the farmer calls for $1.15 for his wheat.

Mr. HAAGENSON. I would lose, as an elevator operator, the spread of the market.

The CHAIRMAN. You would lose 15 cents a bushel?

Mr. HAAGENSON. Yes.

The CHAIRMAN. Then it is not an entirely safe proposition?

Mr. HAAGENSON. It is not entirely; there is always some risk. That is an unusual margin, though, 15 cents premium; it is something we have never had until since the war.

The CHAIRMAN. We have it to-day?

Mr. HAAGENSON. We have it to-day, because the market is unusual. The markets are in an unusual situation.

The CHAIRMAN. On what exchange do you hedge?

Mr. HAAGENSON. Minneapolis and Duluth.

The CHAIRMAN. How many grades are deliverable on the contract there?

Mr. HAAGENSON. Well, No. 1 and No. 2, and, I think, No. 3 is; I could not say for certain, because I have never delivered much.

The CHAIRMAN. There are nine grades altogether?

Mr. HAAGENSON. Well, I handle but one dark northern and one northern.

The CHAIRMAN. Are you familiar with the terms of the contract?

Mr. HAAGENSON. Not any more than that I know that my wheat is No. 1, 2, and 3 northern and is acceptable on the contract.

The CHAIRMAN. But you are not advised as to the price?

Mr. HAAGENSON. Well, yes—as to the price per bushel?

The CHAIRMAN. I mean the difference between the grades?

Mr. HAAGENSON. No.

The CHAIRMAN. That is all; we are very grateful to you.

STATEMENT OF MR. C. A. NELSON, SECRETARY FARMERS' ELEVATOR CO., BROOTEN, MINN.

Mr. NELSON. Mr. Chairman, I am the secretary of the Farmers' Elevator Co. at Brooten, Minn. I am interested in this way, being the secretary, that whenever the farmer brings his stuff in there to sell it we pay for it, and we, of course, use the future as a hedge to sell the cash grain against the cash grain that we bought. The same way, of course, we use the storage. When we ship out of storage we buy the hedge against the storage already shipped. That is what we do.

We use the hedge for the simple reason that it is an insurance, and we thereby can, of course, borrow money at the banks. The banks strictly refuse to let us borrow any money unless we are entirely protected with a future hedge and have a guaranty against loss.

I believe that is all.

Mr. MCLAUGHLIN of Michigan. I have no questions.

Mr. VOIGT. No questions.

Mr. RIDDICK. No questions.

The CHAIRMAN. Thank you very much, Mr. Nelson.

STATEMENT OF MR. JOHN H. LEWIS, MURDOCK, MINN., PRESIDENT FARMERS' ELEVATOR CO., KERKHOVEN, MINN.

Mr. LEWIS. Mr. Chairman, my business is farming, and I am also president of the Farmers' Cooperative Elevator Co. of Kerkhoven, Minn. We handle from 250,000 to 350,000 bushels of grain in a year. We have an elevator capacity of approximately 75,000 bushels. We find at times that it is necessary to carry a houseful of grain. There is very little storage at our elevators in normal times. This year we have considerable.

We have a lot of money tied up in that grain, and we have to protect ourselves, and the only way we have to protect ourselves at the present time is to hedge that grain as we buy it, and our manager is instructed to hedge that grain just as fast as he buys it, and it is the only safe system.

Now, we bought barley before it was put on the hedging list. It was necessary for us to take 10 or 12 cents a bushel margin between our station and Minneapolis. That was on the old freight rates, which were considerably lower than they are now. At the present time we are doing it on practically the same margin that we did when we paid the old rates, and less for the selling commission, for the reason that we can protect ourselves on it.

We can lose on hedging our wheat this year, and have lost a little, because we have a poor grade that is not deliverable on contract and we have had to buy considerable of that stuff on a wider spread this year on that amount.

Oats under the present system we are handling on approximately 1 cent margin over expenses between our marketing point and the terminal. Last year we had $95,000 tied up in good grain in our elevator. Our local banks can finance us to the extent of $13,000 under the State laws of Minnesota. Consequently, we had to find another market to get money to finance our grain, and we can not do it without making it a safe proposition.

Mr. MCLAUGHLIN of Michigan. Where do you get the money?

Mr. LEWIS. We get the money through the Minneapolis Chamber of Commerce—a commission house that handles our business.

Mr. MCLAUGHLIN of Michigan. Have you examined these bills that are pending here?

Mr. LEWIS. Not closely.

Mr. MCLAUGHLIN of Michigan. Are you able to express an opinion as to the advisability of reporting them favorably and trying to get them through the House?

Mr. LEWIS. Well, I think if we eliminate the speculative element in our terminal markets it is going to be difficult for us to find a market every day of the year. That is the position we take on it. The position that we take is that what makes the value of an article is what somebody else wants to pay us for it. Under the present marketing system, as I understand it, all of our grain—the cash and the future—is sold at public auction, and we have access to that market to sell our grain to the highest bidder.

Mr. MCLAUGHLIN of Michigan. One of these bills provides that in this hedging and future trading only three times as much grain shall

be permitted as cash grain, as I understand it. Do you think that would be harmful to you?

Mr. LEWIS. I do not know that I am prepared to answer that question. I heard that matter discussed here before, and I could not just understand the explanation of it.

Mr. MCLAUGHLIN of Michigan. Well, you are satisfied with the existing conditions?

Mr. LEWIS. Yes.

Mr. MCLAUGHLIN of Michigan. You have heard also, I presume, that in other parts of the country, large wheat-growing sections, this business is carried on differently, and there is very little hedging, very little buying and selling of futures, and so on. And the people in that part of the country seem to get along pretty well without this plan that you take advantage of. Now, is there any truth in the statement made by somebody that you carry on your business in the manner you do because the method that you must follow up there is dictated by Minneapolis and Duluth? That you would prefer some other method, but they have adopted this plan and you must conform to it?

Mr. LEWIS. We have a different method in St. Paul if we want to avail ourselves of it—the farmers' cooperative merchandising of grain—but we can not use it. There is no hedging in that market. But I presume they would use the Minneapolis market to hedge a lot of stuff for the elevators that they are doing this for. We can not use their market; we have tried it several times and we can not use it.

Mr. MCLAUGHLIN of Michigan. Do you think you are expressing the opinion that generally prevails in your part of the country among men situated about as you as to the advisability of continuing the present method and their attitude toward these propositions to change it?

Mr. LEWIS. There is a great deal of dissatisfaction and talk, but there is not a man that is talking that knows what he is talking about. He don't understand the functions of the chamber of commerce at all. He don't know the first thing about it, only what some of these fellows come up there and tell him. We have had several members on the board that were opposed to the system, and we have advised them to go down to the market and see how it is done, and every man that has come back is satisfied.

Mr. VOIGT. If you could hedge three times every bushel of grain that you actually handle, that would not be any hardship on you, would it?

Mr. LEWIS. We don't want to hedge it but once.

Mr. VOIGT. Then, I say, this proposed legislation would not be harmful to you?

Mr. LEWIS. I see where it could be very easily.

Mr. VOIGT. Well, so far as you are personally concerned, you hedge only once?

Mr. LEWIS. Through this hedging system we provide a market every day in the year. Perhaps it might work to the injury of the man that wanted to buy my stuff and rehedge it.

Mr. VOIGT. Any man that buys the cash grain from you would be allowed to hedge three times also?

Mr. LEWIS. But it might be necessary to hedge that grain more times than that to get out on the market.

Mr. VOIGT. Well, that is just a supposition on your part. You do not know what would result if every cash transaction were capable of being hedged three times—that is, you do not know whether that would create a market or not?

Mr. LEWIS. No; I could not say definitely as to that.

Mr. VOIGT. Then you have got a fear that it might in some way interfere with a free market?

Mr. LEWIS. It might; I see where it might.

Mr. VOIGT. That is, there would not be as many speculators in grain as there would be if hedging were without limit?

Mr. LEWIS. It would not be as safe for a man to speculate in it.

Mr. MCLAUGHLIN of Michigan. When he goes out and tries to find somebody to hedge with, everyone he runs up against may be somebody that has already played his string out.

Mr. VOIGT. The chances are they would not all play out at the same time.

Mr. MCLAUGHLIN of Michigan. He has got to stay at home part of the time and attend to his business; he can not be looking for that man that is free.

Mr. VOIGT. The gentleman that is free and has not hedged three times would doubtless bob up on the exchange, either in Minneapolis or Chicago.

Mr. LEWIS. Well, I don't know very much about the workings of the exchange, but it looks reasonable to me to suppose that the men that are doing this business are in the game all the time.

Mr. RIDDICK. What is the attitude toward the exchanges of the farmers of Minnesota who raise wheat?

Mr. LEWIS. Well, as I said before, there are a great many of them that do not understand the situation that are opposed to it.

Mr. RIDDICK. You think all of the opposition is based upon lack of understanding or lack of intelligence?

Mr. LEWIS. Most of it, I think.

Mr. RIDDICK. You think there is no manipulation, hammering prices down, at any time?

Mr. LEWIS. Oh, there undoubtedly is at times, but that works both ways.

Mr. RIDDICK. It is not serious, as far as the producer is concerned?

Mr. LEWIS. I don't think so.

Mr. VOIGT. Have you any notion of your own as to how many times a bushel of wheat is turned over between the producer and the consumer?

Mr. LEWIS. I don't know anything about that.

The CHAIRMAN. We are very grateful to you, Mr. Lewis.

STATEMENT OF MR. P. E. KNUTSON, MANAGER FARMERS' ELEVATOR, EGGLESTON, MINN.

Mr. KNUTSON. Mr. Chairman, we are interested in the grain business, and we handle it the same as these other men have explained to you. We buy it in the fall of the year when grain starts to move, and we do not pay any attention to whether it is sold or not, to start with. Then we order cars and ship it, so as to have room, and we

ship this grain and buy futures against it, and then as the firm sells it to us we buy the futures back. If we could not deal in futures we would only act as warehousemen and load the grain for them and ship it to the market. And if we could not deal in futures or did not have something to take the place of it, we could not furnish these people with a market whenever they wanted to sell. And until there is something brought up that would take the place of it and create a demand for this grain at any time, I do not think the option should be done away with.

Mr. McLAUGHLIN of Michigan. If you could not hedge you would have to have money enough to buy all that was offered to you, and you would have to have money enough to afford to carry it until you could sell the actual grain.

Mr. KNUTSON. And then the question would be how much that "afford" would mean.

Mr. McLAUGHLIN of Michigan. And then when you buy from the farmer would you buy, as I understand it, at a smaller price, so as to be sure you were buying safe?

Mr. KNUTSON. Absolutely. The fact is we could not buy it at all. because we would ask such a large margin that the farmers would not sell it. They would pool their receipts and ship a carload together. That is the way it would eventually work out. Because if we asked 8 or 10 cents a bushel, or even 5 or 6 cents a bushel, as a margin of profit, they would not sell it to us at all; they would ship it. At the present time we try to cooperate on a margin of profit of 4 cents a bushel.

The CHAIRMAN. You turn the risk over to the speculator?

Mr. KNUTSON. We do; yes, sir. We do not aim to do any speculating.

The CHAIRMAN. You play safe?

Mr. KNUTSON. As safe as we can. It is not always very safe. Before the war conditions were very good for a man hedging grain.

Mr. McLAUGHLIN of Michigan. Do you know what the sentiment of the wheat growers and grain growers in your part of the country is toward this legislation?

Mr. KNUTSON. The sentiment is that they hate to see everybody else make money off their product when they don't have to raise it. They don't care whether it goes up or down, they don't want the other fellow to touch it unless he eats it. [Laughter.]

Mr. McLAUGHLIN of Michigan. Have you heard of some who favor this legislation and wish to throttle the exchanges?

Mr. KNUTSON. The extreme short selling; yes, sir.

Mr. McLAUGHLIN of Michigan. Do you feel, with the gentleman who just preceded you, that those who have that opinion are talking without information or a large amount of intelligence?

Mr. KNUTSON. There are very few people that understand the hedging of grain, especially among the farmers. I would say that not 2 per cent of them understand it.

Mr. McLAUGHLIN of Michigan. Do you think that the 2 per cent that do understand it favor the present plan?

Mr. KNUTSON. Those that understand it favor it.

Mr. McLAUGHLIN of Michigan. And the opposition comes from those that do not know what they are talking about?

Mr. KNUTSON. Yes, sir. The only thing that is opposed by those who understand it is, if they pool, like you say, and make extreme short selling to force the market down. If there could be something done to do away with that, of course, they would be very well pleased.

The CHAIRMAN. We are very grateful to you, Mr. Knutson. Mr. Lewis desires to make an additional statement.

Mr. LEWIS. I just wanted to make one statement in regard to that protection. We have a farmers' elevator 14 miles south of us that did not hedge their grain this year, and I understand they stand to lose now $25,000 on their business up to this time.

STATEMENT OF MR. M. McFARLIN, CENTRAL IOWA GRAIN CO., DES MOINES, IOWA.

Mr. McFARLIN. Mr. Chairman, I wish to start in with the statement that I have the view that the grain exchanges perform a very valuable function in the handling of grain, and listening to the testimony of these men representing these exchanges confirms that view. I personally would not like to see anything done to cripple the efficiency of the great grain exchanges.

Listening to the testimony of these gentlemen from South Dakota and Minnesota, where they are handling wheat pretty largely, there seems to be a different situation than we have in Iowa. We are a small company—six country elevators. We have done no hedging for the last two years. From July 1 to January 1 we made a little money on corn without hedging. We were even on the oats question until they got down to about 50 cents to the farmer when, like a good many of the farmers, we got overconfident and commenced to hold it. So we are behind on the oats; we have got them, hoping we will be out of them later on.

So it is my experience that in Iowa it is not essential in handling corn and oats to hedge. We get bids every morning from St. Louis, Kansas City, Chicago, and Peoria. We sell a good deal of corn to the starch works at Keokuk and one at Clinton, to the Quaker Oats Mills, and so forth—the industries. A good deal of the corn in Iowa is sold to the industries. A great deal of it does not go to the terminal markets. As I say, our situation seems to be different in Iowa on corn and oats than it is on wheat in the Northwest. But I would not wish to have anything done that would interfere with the efficiency of the great grain exchanges.

I asked Mr. George A. Wells, secretary of the Western Grain Dealers' Association, last Saturday morning if he would let me have his views in regard to hedging. Mr. Wells is a member of a committee of the Western Grain Dealers' Association, which met in Chicago week before last in conference with the officers of the board relative to whether some changes could not be made that would make hedging more safe. My own experience is that there is as much risk in placing hedges as there is in carrying the insurance myself. I would like to read Mr. Wells's reply, because I think some of you gentlemen have heard Mr. Wells. He has been here in Washington quite frequently on matters pertaining to the grain trade. We have a great deal of respect for him out there in Iowa. He represents some 400 country

elevators, mostly in Iowa, some in South Dakota, some in Nebraska On last Saturday, January 8, he wrote me——

Replying to your inquiry as to what action has been taken by the legislative committee in regard to legislation now in Congress relating to future trading, etc, and its attitude with reference thereto, would state that the committee are, broadly speaking, absolutely in favor of the present system of the commercial distribution of grain, the economic functions of the grain exchange, the open market, future trading, hedging, and speculation within reasonable limits. The committee, however, is of the opinion that excessive and pernicious trading is being done in the pits of the Chicago Board of Trade by a very few large individuals and corporate interests, and that such excessive trading is not essential and does not perform an economic service.

The committee is of the opinion that there should be a limit established that will prevent an individual speculative trader from going into the pits and selling millions of bushels of grain when the volume of grain in flow and in terminal storage is exceedingly low, as at the present time, as under such a condition the trading in the pits by the individual trader is exceedingly detrimental to the interests of the country trade who may attempt to make use of the market for hedging purposes.

We feel that speculation so far as necessary should be done by traders widely scattered over the country, instead of confined to the speculative element in the pits, for the reason that the trading done by a large number of speculators widely scattered does certainly reflect local as well as general conditions as to crops, etc., whereas the trading by the large individual speculative trader in the pits reflects his own pernicious ambition to manipulate the market for profit.

I can not state definitely, but it would seem to be the sense of the committee at the last meeting that it defer taking any action until after March ; and it was the hope of the committee that the directors of the Chicago Board of Trade would immediately establish a regulation within itself limiting the amount of future trading by any individual, firm, or corporation at a reasonable point and still give sufficient latitude for hedging purposes.

Mr. McLAUGHLIN of Michigan. What is that committee that he speaks of?

Mr. McFARLIN. That was a committee of the Western Grain Dealers' Association. It consisted of Mr. Wells and the president of the association and a couple of others. I think there were four of them went to Chicago to consult with them.

I was interested in your distinction between speculation and manipulation. I think that covers the ground. I think the bad effects of these operations come from the manipulation, not the speculation. I think that has been demonstrated by the gentlemen representing these exchanges—that speculation, a volume of it, is good, because it equalizes and enables us to sell when we wish at any time. But the large operators, sometimes called plungers, who go in and carry through large operations—my understanding is that those operations and the fluctuations of the markets up and down have quite a tendency to keep people from hedging who would othervise hedge stuff that they are carrying. I have known instances when men have lost on their hedges and on their cash grain, too.

I know that some of my good friends on the Chicago Board of Trade would probably take exception to what I say, but all the same, it is my conviction that private wires put into country towns are not a good thing. I think I am safe in saying that 95 out of 100 bankers in country towns will tell you that they do not want a private wire to come into the town. If I am borrowing money at a bank and they find out I am dealing in options on the board of trade, it would very seriously affect my credit.

Mr. McLAUGHLIN of Michigan. And in Minnesota a banker will not lend a man money unless he does.

Mr. McFARLIN. That is hedging; I am speaking of speculation.

Mr. McLAUGHLIN of Michigan. It is just the same thing—with a limit. It is speculation with a limit, isn't it?

Mr. McFARLIN. Oh, no.. If I have 50,000 bushels of oats that I have in storage, and I am a little afraid of the market, especially if there is a premium on the future, and I choose to sell it for future delivery, that is hedging.

Mr. McLAUGHLIN of Michigan. But in that hedging transaction you do not sell those oats at all; you simply bet on what the market will be at a future time.

Mr. McFARLIN. But it is insurance.

Mr. McLAUGHLIN of Michigan. Isn't that true?

Mr. McFARLIN. Oh, to a large extent; yes.

Mr. McLAUGHLIN of Michigan. Well, let us get down to brass tacks.

Mr. McFARLIN. Very little of the grain is ever shipped, but it is a protection, because the supposition is that as the option varies up and down the cash follows it.

Mr. McLAUGHLIN of Michigan. I am not using that expression in opposition to the idea that these gentlemen have advanced here, but just to clarify the situation. It may be an entirely proper and necessary proposition, but it is not dealing in grain at all; it is a gamble and a bet on what the price is going to be at a future time.

Mr. McFARLIN. Down there in Iowa all during the fall the cash oats and corn were at a premium over the option, so that it was really against a man to sell a future against his purchases. And then, as I say, we have no trouble in selling our stuff, except we had trouble during the terrible car shortage, and that probably won't happen again. During those times we were very handicapped, but ordinarily, under normal conditions, we can always sell our stuff. We can sell oats for 60 days' shipment, and have been able to, and get generally fully as good a price as the option.

All I am saying, gentlemen, is this: I recognize that the grain exchanges are great institutions, and also recognize that a volume of business is necessary to perform the legitimate operations on them. I am just giving some of my own ideas.

The CHAIRMAN. As I understand, you are not against future trading, but you are in favor of regulation?

Mr. McFARLIN. That is my idea, Mr. Chairman. There has been considerable discussion here this afternoon that I have been interested in about the amount delivered on future sales. I have made inquiry of different people and come to the conclusion that the trading in the pits in Chicago, especially—95 per cent of it is other than hedging sales.

Now, there is a difference between hedging and selling a future and delivering the grain on that contract. I have heard grain men say, "Oh, I think that is rather extreme"—95 per cent that do not hedge—but I think I am very safe in saying that 90 per cent of it is other than hedging.

The CHAIRMAN. Would you be in favor of a limitation such as was in effect during the war limiting the exchanges to 200,000 bushels?

Mr. McFARLIN. Mr. Chairman, I discussed that in Chicago with two or three different men, and they seemed to think that that did

not during its operations prevent the fluctuations up and down. Mr. Wells has suggested that if 200,000 was too small an amount that we make it 300,000 or 400,000.

The CHAIRMAN. But you think some limit should be fixed?

Mr. MCFARLIN. In view of stopping this manipulation, or what might be called plunging.

Mr. VOIGT. The man who wrote these letters that you introduced is of the opinion that the amount of trading that an individual can do on one day should be limited?

Mr. MCFARLIN. That is my understanding, yes; that is, to prevent these big operations in buying and selling and manipulating the market.

Mr. VOIGT. Have you any hope, personally, that the Chicago Board of Trade would ever adopt such a rule?

Mr. MCFARLIN. If I was a member of the board, I would advise it for self-preservation.

Mr. VOIGT. You do not think they are going to do it, do you?

Mr. MCFARLIN. I have talked to some of the best men on the board. I have heard the testimony and you have heard the testimony this afternoon that they acknowledge some things probably ought to be modified and changed.

Mr. VOIGT. But they do not say what those things are?

Mr. MCFARLIN. No. I have talked with men on change about these indemnities—they used to be called "puts and calls." I find they are not traded in in Minneapolis or Toledo, and I do not know as they are traded in any other market except Chicago. I have not seen in the market's gossip more than once where the buyer or seller of those privileges would come in and have an influence on the market. Those men in Chicago can explain that better than I can. It is rather a technical process that I have never cared to learn; I never dealt in one in my life.

Mr. VOIGT. But the Chicago Exchange works without the rule limiting the amount that an individual could trade in on any one day that would necessitate that every time a man gives an order to buy or sell his name is to be given to the man making the other end of the deal?

Mr. MCFARLIN. I suppose it would.

Mr. VOIGT. That would necessitate every man's name who deals in grain being exposed?

The CHAIRMAN. I imagine it would be somewhat difficult to keep track of that, but that could be done.

Mr. VOIGT. Well, suppose now you had a rule that no man could trade in more than 500,000 bushels. Suppose he was a gentleman who wants to trade in 2,000,000 bushels. All he would have to do would be to name three dummies. That would get around the rule would it not?

The CHAIRMAN. Many laws unfortunately are violated, more or less, I guess. The prohibition law is, surely. [Laughter.]

But I have in mind about the great boards of trade and exchanges that they ought not to hang out and oppose any reforms or changes if there are any. The great banking business has had to come under pretty strict laws and regulations. I well remember when we went through about three years of contention with the Government on the establishment of the Federal trades that grain and grain inspec

tion, and it came through in good shape and it was a mighty good thing. I do not think there is any grain men in the country who do not recognize that it is a very good thing—that is, the establishment of the Federal trades and the supervision that is given by the Government, as the Government does not actually do the inspecting, but supervises it and sees that it is done regularly—and I believe that there could be some changes in the methods in Chicago and on the various exchanges that would have the benefits.

The CHAIRMAN. You would limit an amount to the quantity actually delivered, would you not? You would fix the actual delivery?

Mr. MCFARLIN. Oh, no.

The CHAIRMAN. But you would limit the amount in excess; that is, for speculative purposes?

Mr. MCFARLIN. I would say this, Mr. Chairman——

The CHAIRMAN (interposing). A fellow buying a million bushels and expecting it to be delivered. You would not limit him to 200,000 bushels, but to his requirements?

Mr. MCFARLIN. That is right.

The CHAIRMAN. But you would limit the amount above the amount actually required to carry on his business?

Mr. MCFARLIN. I would understand the idea to be a less speculative element outside of hedging. Now, a fellow buying a future for wheat, as I understand almost all of that is done by the millers with the expectation of taking the wheat for delivery; and that trade against a flour sale is a hedging sale.

The CHAIRMAN. You would not limit the actual legitimate hedging at all?

Mr. MCFARLIN. No; surely not.

The CHAIRMAN. But the amount in excess of that you would put a limit on?

Mr. MCFARLIN. That would be my idea.

STATEMENT OF MR. L. W. FORBELL, NEW YORK PRODUCE EXCHANGE, NEW YORK CITY.

Mr. FORBELL. My name is L. W. Forbell, New York Produce Exchange.

My statement will be very brief, if it is possible.

Before making any statement I wish to subscribe in the main to the statement read here by Mr. W. S. Moore, of Duluth, which I consider one of the clearest and most concise statements of the situation that has been given in this room, and I say that without casting any reflection on any other statement that has been made by representatives of the exchanges, as I think all of them have been excellent in themselves. But that statement by Mr. Moore represents more fully the views that I hold and which I think are generally held in all markets; in fact, it would not surprise me that those same views are held in all other markets.

The New York Produce Exchange is not a speculative market. We have no wheat pit or corn or oats pit. We have a cottonseed oil market, which is the only speculative market in the country of that nature, and that is the only speculative market within the walls of the exchange. Nevertheless, a very large speculation in all grains

is conducted by the membership of the New York Produce Exchange and their customers.

We are an exporting market, clearing the largest amount of grain, I think, of any seaboard market, although that condition may change in some years. I would not be surprised but what this year the Gulf ports, particularly Galveston, would show a larger exportation of wheat than the port of New York. But taking it through a series of years, the port of New York probably clears more grain for abroad than any other seaboard market.

Now, in consequence of that most of the largest exporters of this country are located at New York. They not only buy for shipment from the port of New York but all other ports as well, but their operations are conducted at New York.

Foreign orders are received by them at times for enormous quantities of grain, be it wheat, corn, or oats. That grain is not always available for the time of delivery called for by the foreign inquiry. It is necessary, therefore, in order to accept the foreign bid—which may have been on the basis of an offer made by them to Europe the night previous—for them to cover that sale by a purchase of futures. That is the almost invariable rule where the cash grain is not immediately available.

In turn the futures is exchanged for the cash grain when the time of delivery or approach to that time occurs. Consequently the contention of the futures market is of primary importance to our exporters. It is of primary importance to the European buyer on that account; otherwise he would not be able to buy his grain as advantageously should trading in futures be eliminated or restricted to such an extent that it would require a much larger margin than at present prevails between the buyer and the seller—that is, between America and Europe or between the West and the eastern seaboard.

We do not think that the operations in futures can be conducted successfully—that is, for hedging purposes—either in hedging the purchases of grain by the western dealer as it is bought from the country dealer or the farmer or, on the other hand, sold abroad, unless there is a free and open market that is of sufficient dimension to absorb the offerings by hedging purposes or to provide sufficient protection to the exporter who is selling the grain abroad. We therefore think that it would be a grave mistake to change the system that has endured for so many years, and on the whole with general satisfaction, and has enabled the grain trade of the country to be conducted on probably the most economical basis that could be brought out.

I do not know of anything else that occurs to me at the moment with which I could amplify that statement. But there are various phases of the situation that appeal to one always that are afterwards brought out.

STATEMENT OF MR. FRED F. MUNSON, ARCOLA ELEVATOR CO., ARCOLA, ILL.

Mr. MUNSON. In our territory, which is the corn and oats territory, we have made a practice of purchasing corn early—in August and September. There not being any cash market, of course, we have had to take advantage of the hedge to sell the option against our cash purchases.

We also do quite a good deal of storing for the farmers, and as our capacity is limited to probably 40,000 bushels, in order to take care of the grain as it comes in, it becomes necessary for us to ship out the farmers' grain before having purchased it; and in order to protect ourselves we naturally sell an option against it, and take our hedge off when the farmer feels disposed to sell it.

In regard to the speculation on the different boards of trade, we feel in our community that the speculator has a tendency to stabilize the market. He is willing to take our stuff when we offer it, and quite often industries are not in the market. We, of course, receive cash bids every morning the same as every other elevator, but quite often there are no bids on our cards from the industries, the bids coming in from the speculator; and I think that is one place where the speculator does us good and does the farmer good.

We are unable to sell our cash stuff and have any assurance of delivery because of transportation difficulties, which probably you all know about. This season we have been rather fortunate in having what cars we needed most of the time. But ordinarily in making our purchases early it would be dangerous to sell our cash stuff because of the transportation difficulties.

I do not think I have anything else to add to that, except this: That the feeling generally in our community among those who know is that the board of trade is a good thing.

I am a good deal like the gentleman from South Dakota or Minnesota. I think you will find that more of the agitation against the board of trade or different boards of trade come from people who are not acquainted with its workings as a hedging proposition.

Mr. VOIGT. The people at large know that there is a large amount of gambling going on in these exchanges, and they have a suspicion that what that gambling costs comes out of their pockets.

Mr. MUNSON. I do not think that it does.

Mr. VOIGT. I think that a good deal of it does, and necessarily must.

Mr. MUNSON. I was paying particular attention to your question to some one else a while ago in regard to the loss sustained by the different transactions. There is not any monetary loss, because the same money just passes from one hand to the other; it is just simply a loss of energy, as I understand.

Mr. VOIGT. A loss of energy, my friend, is a monetary loss. Let me illustrate that to you. Suppose you had a hundred men and paid them $5 a day for digging holes and closing up the holes. You would be out $500; you would be out the energy of those men, and when they get through they have accomplished nothing. That is a loss to the Nation. As I said before, if you insure a house for a thousand dollars, and that is the value of the house, and the house burns and you get our insurance money, you are nothing out. But if you were to burn down every house in the country on the same theory, it would impoverish the United States that much, would it not?

Mr. MUNSON. Yes, sir; that is true.

Mr. VOIGT. Now, then, if you spend 25 cents for every bushel of grain in commissions, you have lost that vast sum of money, the energy represented by that vast sum, and the Nation at large has nothing to show for it. That is the point I tried to make.

Mr. MUNSON. Well, I do not quite agree with you there. I think this: That the time that was devoted probably by these different parties in hedging or in trading could have been utilized for something that would have been produced. But as far as losing the money is concerned, it would be just a changing from one to another. If I would pay you a quarter of a cent for doing something for me, you would have the quarter cent and I would be worth that much less. But still the same amount of money would be in the country.

Mr. VOIGT. We would still have the same amount of money in the country, but the energy of these men in using that amount of money would go up in smoke, so to speak. When the year is up there is nothing to show for it.

Mr. MUNSON. That is true.

Mr. VOIGT. Except that you could claim that this so-called hedging insurance is paid for by that vast amount of money.

Mr. MUNSON. Yes.

Mr. VOIGT. Then the question arises whether the expenditure of that vast amount of energy is necessary to create this so-called insurance?

I take it from what you have said here that this hedging proposition, this vast amount of speculation, acts as a sort of buffer or shock absorber, if you please, between the seller and the ultimate consumer of the grain; that is, instead of a dozen men each standing a loss on a bushel of grain 2 cents—assuming that the market declines—you spread that loss over 100 men. That is the net result?

Mr. MUNSON. Yes. You do understand we use the hedge just simply as insurance, so far as we are individually concerned, in the local grain business—country elevators. But the speculator comes in where the industry leaves off. The speculator is willing to take out stuff and insure us against a possible loss. It is not a perfect insurance, because there is a danger of the spread widening between the option and the cash stuff. But it is the best insurance we have, and the speculator quite often is willing to do that thing that the industry is not willing to do—I mean by the "industry" the different product companies that consume our corn, particularly, and oats. We are not in a wheat country.

There is another advantage, I think, in the board of trade in this, that the quotations are before our farming community all the time. I come from a broom-corn territory. Arcola, Ill., at one time had more broom corn raised in its vicinity than any other place in the world. We have not any quotations as to broom corn. Our farmers are dependent absolutely on what the buyer sees fit to give them. They know nothing about what the world conditions are; they know nothing about what the conditions are anywhere. They are simply at the mercy of the buyer, and it is different with the grain grower, because he has these different quotations to keep him in touch with conditions and with the market.

Mr. VOIGT. You take the man who manufactures lumber; he does not enjoy this privilege of working?

Mr. MUNSON. I guess that is true.

Mr. VOIGT. He runs his own risk; so does the man who mines the coal, and so does the farmer who raises potatoes or stores eggs.

Mr. MUNSON. Are not potatoes quoted on the different boards of trade? I think they are.

Mr. VOIGT. They may be quoted, but I have never heard of men trading in future contracts on potatoes. I can see the difference between a man who has the grain and hedges the grain—that is, he wants to protect himself as to the price of that grain, but the man who merely speculates in grain has not any grain to protect.

Mr. MUNSON. That is true, but I really believe that he is a benefit to the producer in stabilizing the market at a time when the industries are out of the market. The industries are not in the market at all times, and by the speculator being there it gives us a market; that is what it does, at all times. He is willing to take this stuff and the manufacturer or industry is not willing to take it. He is simply willing to take the chance of either making something or losing something.

The CHAIRMAN. The question before the committee seems to be whether we can cut out some of the gambling in grain and still preserve a fluent market. Mr. Munson, the committee is very grateful to you.

Without objection, the committee will stand adjurned to meet at 9 o'clock to-morrow morning.

(Thereupon, at 7 o'clock p. m., the committee adjourned to meet to-morrow, Thursday. January 5, 1921, at 10 o'clock a. m.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Thursday, January 13, 1921.

The committee met at 9 o'clock a. m., pursuant to adjournment on yesterday, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. I believe the first witness this morning is Mr. Johnson.

STATEMENT OF MR. J. R. JOHNSON, ALLEMAN, IOWA.

Mr. JOHNSON. Mr. Chairman and gentlemen of the committee, I am manager of the Farmers' Elevator Co., at Alleman, Iowa. I have been manager of this company since 1908. The first occasion when we had to use the future market was in the fall of 1914. A few of our people did not sell their corn in the summer, and the market broke pretty sharply in the fall, and some of them said they could not keep their crop over and put in their corn for the next year, and I told them if they wanted to bring the corn to our elevator I would keep it and find a future market and sell corn in that way. I did so at that time. It was about 60 cents per bushel then. It had been, in the summer, 60 cents to 65 cents a bushel, and we sold it later on for 75 cents. We hedged in the future market until next summer, when we sold our corn.

Now, we did not have any occasion to use that hedging feature again for some time. Last winter some people had corn on hand that did not want to sell and wanted to move it in the winter. So we stored the corn for them and bought on the future market, and when they sold we sold the future.

This last summer is the worst year we ever bought on the market. Some of our fellows thought that around a dollar and a quarter was a good price for corn, and they wanted to sell. When they sold their corn we sold December corn against it; and we sold some May corn against it. That is the only time we have sold. Otherwise we have always taken in their corn in storage and kept it, but last summer we sold on the future market. This feature is a benefit to us whenever we can not sell this stuff itself.

Mr. TINCHER. If you had not sold a future option, the farmers probably would have carried out the same transaction by selling the corn for future delivery. You do not know that you could not have sold corn for future delivery and got confirmation from a responsible firm?

Mr. JOHNSON. Yes; but there again is where the larger merchant comes in.

Mr. TINCHER. You have heard a lot about these exchanges making delivery, but I do not think that is right.

Mr. JOHNSON. I came in here to tell you what I know about it, but that is what we want to know, what is right and best.

Mr. TINCHER. What little you have used this gambling in grain futures would not amount to much, would it?

Mr. JOHNSON. Not very much, but when we do want it we have it.

Mr. TINCHER. Yes; but you can get along without it very nicely?

Mr. JOHNSON. We would hate to look for any.

Mr. TINCHER. The only time you used it it was all right, but you could get along without it; and if you had gotten burnt on it a time or two you would be willing to get along without it.

Mr. JOHNSON. There is no use of getting burnt unless you speculate.

Mr. TINCHER. I know there is no use getting burnt on the board of trade, but somehow or other they do?

Mr. JOHNSON. Sure they do. Yesterday something was said here about 25 cents being the cost of 100 transactions in a bushel of wheat. The producer does not pay that 25 cents, and the consumer does not pay it. It is the same as a speculator who was on the wrong side of the fence and who would get burnt. He pays his part of it.

Mr. TINCHER. You did not hear Senator Caraway's story about the two lice on the back of a hog, did you?

Mr. JOHNSON. No, sir.

Mr. TINCHER. The story was to the effect that the two lice claimed they were living off of one another instead of off the hog. These speculators certainly do not live off of one another.

Mr. JOHNSON. To a certain extent they do not and yet to a certain extent they do.

Mr. TINCHER. Here is the reason why they do not live off of one another, that they do not produce anything, and what they consume they get off of those whose commodity they deal in. It is like the two lice on the back of a hog, if it were not for the hog they could not live, and in the same manner if it were not for the producer these speculators could not live.

Mr. JOHNSON. Those speculators have an income and they live off of that income.

Mr. TINCHER. Well, even if that were so, they had to earn the money through some source in order to get an income. But I assume that they are in the business for the purpose of making money, and if they do make money it has to come from somebody.

Mr. JOHNSON. Well, it comes from the other speculators.

Mr. TINCHER. But it has to be produced somewhere. That is analogous to the two lice on the back of the hog, as you will see.

Mr. VOIGT. That income has to come from the profits received from trades?

Mr. JOHNSON. What one man makes on the board of trade the other fellow loses. I have made a couple of trades on the board of trade myself.

Mr. VOIGT. Oh, you have traded on the board of trade?

Mr. JOHNSON. Yes, sir. The most of the fellows who have been talking here before you have not traded on the board of trade but I have. I did not take very much on which I could lose.

Mr. TINCHER. Well, you certainly will lose if you continue trading there. You are about of the right age to go on and lose. Are you the manager of a farmers' elevator company?

Mr. JOHNSON. Yes, sir.

Mr. TINCHER. Well, you go back home and tell your people to put you on a bond not to trade or to fire you, one or the other. You have no business doing it if you manage their elevator.

Mr. JOHNSON. I would not speculate with their stuff, because if you speculate with farmers' elevator funds and make good they will say any fool can do that, but if you speculate and lose you will lose your job.

Mr. TINCHER. Well, the bunch of suicides reported each year are accounted for by boys who think they can not lose.

Mr. JOHNSON. Of course, everyone who goes in there counts on making money.

Mr. TINCHER. Yes; but the fellow that makes money out of that sort of thing is the fellow who lives out of doing it every day in the year, and resides in Chicago and who has a fine office and lives in a fine residence and rides around in a big automobile and buys Government bonds from which he has an income, as you say. He had to get that money somewhere, and he got it by speculation in the grain market and made it out of this little fellow at home who does not know the business and who has no right to fool with it. You see I have a puzzle here before me. It would take you a little time to put this puzzle together, wouldn't it?

Mr. JOHNSON. I think it would.

Mr. TINCHER. But you could be educated so that after a while you could do it in a quarter of a minute. But to say you could, yet you would not bet with Mr. Wilson about putting it together, because you do not know anything about the puzzle, and you know just as much about this puzzle as you do about the Chicago Board of Trade, I dare say. The fellows who are here, paying a thousand dollars for their expenses and staying week in and week out fighting this bill, are certainly doing it more or less for some selfish reason. And I suspect the reason is not because of their admiration of the farmer, as you would guess from their testimony before this committee, but probably because they are thinking about themselves a little. As one witness testified on yesterday, he would survive or perish depending upon the fluctuations on the market, and he was here to testify in behalf of a perpetuation of the fluctuations. He had said just before that that he thought it would be disastrous to the farmer if we did away with speculation in grain futures, or the speculation in all kinds of futures.

Mr. JOHNSON. Of course, if there is something that can be done to make this condition better, I would be glad to have it.

Mr. TINCHER. I think maybe speculation is all right, but let me give you this suggestion: There is nothing so palpably against good morales or against good government as gambling in food products to the detriment of the man who produces those products and the man who consumes them.

Mr. JOHNSON. I can not see that it is a detriment to them. The quotations are there, and the fellows who want to buy and the fellows who want to sell can do so.

The CHAIRMAN. You are not opposed to regulating the exchanges, are you?

Mr. JOHNSON. No, sir.

The CHAIRMAN. You are in favor of improving existing conditions?

Mr. JOHNSON. Sure.

The CHAIRMAN. I mean as to making contracts and operations on the boards of trade fair?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. As the situation now is, these matters are left to the exchanges, with no regulation whatever except their own?

Mr. JOHNSON. Well, now, some fellows probably have bid on the board of trade and got stung, or bid on quotations, but in the dealings we have had with them—and we do not go in there unless it is at a time when we can buy stuff—they have been all right. When we shipped out this corn last December and in January the future market was lower than the present market——

Mr. TINCHER (interposing). I am now talking about regulation of the boards of trade, or the chairman was.

The CHAIRMAN. You say you are operating on an exchange, so I will ask you what you know about exchanges and their contracts. If you know, you are one of the first of the 500 I have asked who can tell us. The fact is that everyone goes in and invests his money and does not know the first thing about their rules and regulations. Ninety-nine out of one hundred know practically nothing about it. I have asked this question here of many a witness on the stand, and if you can tell me you will be the first one to do it. Or, I will not say you are the first one, as one or two men have said they knew about it, but very few men know anything about it, and very few indeed have ever made inquiry.

Mr. JOHNSON. You mean about contracts and the filling of sales?

The CHAIRMAN. Yes.

Mr. JOHNSON. Well, this last month we had some stored oats, and we had a chance to sell. We sold about 10,000 bushels of December oats, and then we got some oats; then we sold out the contract. That contract was fulfilled.

Mr. TINCHER. That was not on the board of trade.

Mr. JOHNSON. Yes, sir; I bought 10,000 bushels of December oats against the ones I sold earlier in the fall. I did not ship them to Chicago, but to a man in Des Moines. He has a feed store and sells oats to the public. He said if oats went down to a certain price he could use the oats, and I sold the oats to him and turned around and bought December oats. And about December 28 those oats were delivered to me, because I bought December oats.

The CHAIRMAN. Tell us about contracts. We know all about these other transactions, according to what has been told us, but what did you buy, what did you get, and what were you entitled to under the contract that you made?

Mr. JOHNSON. Those 10,000 bushels of oats.

The CHAIRMAN. What kind of oats?

Mr. JOHNSON. No. 3 white oats.

The CHAIRMAN. Do you know that up to a few years ago that instead of giving you No. 2 oats, as you say, they did not even give you

No. 4? Do you know that in wheat there are 23 grades in Chicago and that they take delivery of any grade and pay the difference? Would you think that entering into a contract of that kind was a good thing? These are the arrangements that you are entering into when you buy there. You have no say of it as seller, because the Congress has never had anything to say about it. There is a say about cotton in cotton futures. In cotton futures they say you must deliver one of ten grades, but the sky is the limit as to wheat and oats. They can pass regulations on the board of trade and say that you could deliver anything at a certain price and we will fix the difference. There is no regulation. I understand the practice of the dealers about hedging. They think there is something in it, and at times there is, but there are as many dealers who go broke who hedge as those who do not. I can name you men who have operated cooperative elevators who went broke; men who have lost their farms and everything else they had. There are chances to win, but the purpose is to let the other fellow take the risk. If the market goes down it is one man's loss, and if it goes up he wins. Cooperative companies are not in the business of speculation but to handle grain, and they are willing that the other fellows shall take the risk. If the farmer wants to speculate on futures and he says, I will store my grain and he does so, then you have the use of the money and you hedge, and in the meantime if grain goes to a premium you have to stand a loss. That is all there is to it.

Mr. JOHNSON. During the war there was a wide spread between the future and the cash markets.

The CHAIRMAN. There is now in wheat.

Mr. TINCHER. And there was no future market during the war on wheat.

Mr. JOHNSON. We only handle a few cars of wheat. Oats and corn are our main grain crops in central Iowa.

The CHAIRMAN. Are you for regulation to cover these exchanges or do you want them to make their own rules and regulations?

Mr. JOHNSON. Well, from the experience we have had they are conducted satisfactorily.

The CHAIRMAN. That is not the point. Have you such confidence in them that you want them to do as they please—to make their own rules and regulations without any restrictions put on them whatsoever?

Mr. JOHNSON. Well, if there are regulations that are not——

The CHAIRMAN (interposing). That is still not the point. What confidence have you in the exchanges? Have you more confidence in the exchanges than you have in your Government and the enforcement of the law?

Mr. JOHNSON. Well, that is a question that is hard to answer.

The CHAIRMAN. You may let it go at that if you wish to do so.

Mr. JOHNSON. Take the grain men, and they know their business. If the grain men do not act fairly, then none of the fellows are going to trade with them. If they do not do what is right, the fellows will quit them.

The CHAIRMAN. You want to pass everything up to them and leave the matter to them entirely?

Mr. JOHNSON. Well, I say——

The CHAIRMAN (interposing). That is a fair question, and I think you can answer it yes or no. You can take the other side of it if you want to.

Mr. JOHNSON. If there are some things that the folks say they are not doing right, then I am glad you people are going to take care of us fellows.

The CHAIRMAN. The handling of the exchanges has got to be a matter of their own rules and regulations, or else regulation by law. Which are you in favor of?

Mr. JOHNSON. If there are things not fair to the public I say for you fellows to regulate them.

Mr. McLAUGHLIN of Michigan. Are there any things that you can speak of that should be regulated?

Mr. JOHNSON. No; there are not. The most of the exchanges regulate themselves. Yesterday they spoke here of the manipulator, and it was shown that where a man so engaged won at one time, yet he lost later on all that he had made. I do not believe that there is manipulation of the markets now. There was before. If anyone starts that stunt he is met by a lot of fellows on the other side to counteract that effort. There is no business that is perfect. We ourselves are not perfect as far as that is concerned. We have our faults. How to improve that matter is a question. If you do a certain thing you might hurt the other operations of the business.

The CHAIRMAN. I think it fair to say that the exchanges are composed, for the most part, of high-class men. I have no quarrel with the exchanges; but the question here is whether you want regulation of them or not?

Mr. JOHNSON. As I understand, if a member of an exchange does not fulfill his contract, or if he commits some act that is not fair and square, his membership is taken away from him.

Mr. McLAUGHLIN of Michigan. Oh, they fulfill their contracts; but their contracts permit them to deliver anything they please.

The CHAIRMAN. Do you think all their rules and regulations are fair to all concerned?

Mr. JOHNSON. Well, they can not make them fair to all concerned, hardly.

The CHAIRMAN. I am asking you now about their rules and regulations. Are they fair to all concerned? Are they as fair to the buyer as they are to the seller?

Mr. JOHNSON. As to oats and corn they are.

The CHAIRMAN. If you think so, all right.

Mr. JOHNSON. I am not acquainted with the wheat situation, because we only handle, as I say, very few cars of wheat. But as to the oats and corn business, in the dealings we have had, we have found them satisfactory.

The CHAIRMAN. How many grades are deliverable on a contract for corn in Chicago? You operate in Chicago, do you not?

Mr. JOHNSON. Yes, sir. I have not got the information down exactly. No. 2 yellow corn is at half a cent premium?

The CHAIRMAN. No. 2 yellow?

Mr. JOHNSON. Yes, sir. I think it is applied that way. There is only a difference in the grades of 1, 2, and 3 there.

The CHAIRMAN. You have reference to white mixed or what?

Mr. JOHNSON. I have reference to No. 2 yellow corn. I think it is applied at half a cent premium.

The CHAIRMAN. How about No. 1?

Mr. JOHNSON. I could not say as to that.

The CHAIRMAN. What is the basic price? What about No. 3 white corn and yellow corn and mixed corn? How many grades are deliverable on a contract, would you say?

Mr. JOHNSON. I think they accept four at certain discounts. I am not just familiar with the discounts on the grades that can be delivered.

The CHAIRMAN. Any other questions? [A pause.] If not, we are very grateful to you, Mr. Johnson.

Mr. JOHNSON. I wish to thank you gentlemen.

The CHAIRMAN. The next witness is Mr. Post.

STATEMENT OF MR. A. D. POST, MANAGER OF THE FARMERS' ELEVATOR CO., ONAWA, IOWA.

The CHAIRMAN. Please make your statement.

Mr. POST. Our company is a farmers' company, and we handle a lot of wheat in our section. We make a practice of hedging at least 90 per cent of our wheat. In corn and oats it is the same way, but wheat is our principal small grain. We feel that if the present system of hedging were abolished or curtailed that it would affect our business to a large extent in the way of charging margins, because we feel that by the hedging operation we can handle grain on a much smaller margin than we could if we should sell it on contract or buy it and hold it with the expectation of selling it at some future time. We handle a few oats but a lot of corn. We hedge our oats and corn as well. I think I am safe in saying we use the hedge market for at least 90 per cent of our total annual receipts, which run about 90,000 bushels.

Mr. MCLAUGHLIN of Michigan. How about wheat?

Mr. POST. Wheat, oats, and corn. We run about one-third wheat, two-thirds corn, and a few oats. We hedge everything. Then we market our stuff, and, of course, after that we lift the hedge.

We feel that with any restrictions on the present system of exchange marketing it would affect our hedging operations to a greater or less extent and cause us to buy grain on a larger margin of profit.

I believe that is all I have to say, unless it would be with reference to what Mr. Haugen said to the previous witness, whether or not he was in favor of regulating the exchanges. I say yes, if there is any regulation that you could use that would be for the betterment of the service and of everyone concerned.

Mr. MCLAUGHLIN of Michigan. Do you think there is any respect in which we should regulate them?

Mr. POST. Well, I will tell you the idea I have. I feel that I am a pretty small man to be suggesting such things for such a large business as the exchanges, only being a little country dealer myself. But it seems to me——

Mr. MCLAUGHLIN of Michigan. You are in a section of the country where they do deal in these matters. Coming from Michigan, where

the records show 95 per cent of the farmers and dealers do not deal on the exchange—and that may be why we are so poor up there?

Mr. POST. Well, I guess not.

Mr. MCLAUGHLIN of Michigan. We do not know anything about these matters. You can tell me a great deal about them, I am sure.

Mr. POST. No; I fear I can not.

Mr. MCLAUGHLIN of Michigan. Perhaps I should not have put that in. But in what respect do you see faults in the exchanges, and how may they be corrected?

Mr. POST. I think this delivery business, that it should be on a commercial basis, instead of a fixed basis. I think that would be more fair to the country grain trade than as it stands at the present time. For instance, if there is 3 cents a bushel to-day between No. 3 white oats and dark oats on the Chicago market, and you deliver No. 3 white oats on the option contract, I think you should have that market premium, instead of a fixed premium, as they have under the exchange rules to-day.

Mr. MCLAUGHLIN of Michigan. You hedge nearly every purchase you make, every purchase you make from the farmers, do you?

Mr. POST. Well, I will say that at least 90 per cent are hedged, and I think I am safe to say 95 per cent.

Mr. MCLAUGHLIN of Michigan. Ninety per cent in volume I understood you to say in your first answer, and not in 90 per cent of the number of your transactions. Do you make a separate hedge in each transaction?

Mr. POST. As to 90 per cent of the volume, I do not know that I get your question?

Mr. MCLAUGHLIN of Michigan. Well, it is not very important. How often do you carry a transaction clear through and is delivery made on your hedge?

Mr. POST. Once in a while if buying a hedge and I happen to carry it into the month of the option I have bought it is delivered; yes.

Mr. MCLAUGHLIN of Michigan. What kind of goods are delivered then?

Mr. POST. Well, as a rule the poorest that can be delivered under the contract.

Mr. MCLAUGHLIN of Michigan. And the difference is paid to you in money?

Mr. POST. No; it is me that pays the money, if it is delivered to you?

Mr. MCLAUGHLIN of Michigan. If you buy, of course. Do you buy one grade and receive another?

Mr. POST. We buy any one of a number of grades, and the seller has the option as to which grade to deliver. May wheat could constitute several different grades of wheat, for instance. I do not know just exactly the number of grades, but I know there are a lot of them.

Mr. MCLAUGHLIN of Michigan. In your part of the country I presume there are a very large number of men and organizations doing practically the same kind of business that you are doing?

Mr. POST. Yes, sir.

Mr. MCLAUGHLIN of Michigan. Was it your opinion as to others that they are doing the same kind of business that you are doing in the matter of hedging and doing business with the boards of trades?

Mr. POST. Well, those two words are synonymous with the average country grain dealer. Doing business with a board of trade, it is the only business that they do; that is, hedge. In our section of the country the majority of them do it. My experience has been that those who have not done it have regretted not doing it, especially in the last few years. There have been elevators in our country that have gone to the wall this year simply because they had no protection and had no cars.

Mr. MCLAUGHLIN of Michigan. In former years how has it been as to those who succeeded and those who failed?

Mr. POST. Well, of course, I could not say as to that exactly, but I believe you will find the hedging elevator will average standing higher financially at the end of a period of years than the nonhedging elevator.

Mr. MCLAUGHLIN of Michigan. That has been the experience in your part of the State?

Mr. POST. Yes, sir. I can cite an example of two stations nearest me. They are both nonhedging stations, or were at the time I have reference to. One of them has not hedged any yet. As I understand it, the other one has changed its tactics. In the year 1917, when corn was going up rapidly, in the spring of the year, they commenced to take in corn on storage at the first station north of me, the Farmers' Elevator Co.

Mr. MCLAUGHLIN of Michigan. That is a nonhedging company?

Mr. POST. Yes, sir. Of course, you understand the size of the average country elevator is such that they can not store very much grain in actual storage, because their capacity will not warrant them in doing it and leave them room to do business. Consequently, he ships his corn on the market as it comes in. He protects himself in no way whatever. In the summer of 1917 corn went to the highest, I guess, it ever did in the history of the country. Consequently, they went bankrupt and lost $31,000 in less than five months' time.

On the other hand, we have a farmers' elevator company south of us, and this year they did the same thing exactly, but instead of losing $31,000 I suppose they stand $50,000 to $75,000 to the good. But I consider that they were violently speculating just the same; they were selling short.

Mr. MCLAUGHLIN of Michigan. Do you know why the nonhedging corporations prefer to carry on their business in that way?

Mr. POST. Well, I will tell you, that is from what few managers of companies I have talked to on the subject. I do not talk to a whole lot of them because my business does not carry me around a good deal. The reason is the prejudice of the farmers' organizations, which causes them to prohibit trading on boards of trade for the reason that they consider it gambling instead of protection.

Mr. MCLAUGHLIN of Michigan. Then you find that the farmers generally are opposed to the hedging plan of doing business?

Mr. POST. Absolutely, until some one who is acquainted with the art of hedging has talked to them. Nine times out of ten their opinion has changed. As far as that is concerned the members of my own company, when I went there 10 years ago, were just as much opposed to it as any of the other farmers I know of. I do not think to-day, however, you would get any farmer in our company who

would advocate anything but hedging, because they have read up on the subject and talked up on the subject and become posted along that line.

Mr. McLAUGHLIN of Michigan. To get back to the weak points of the hedging proposition, where there are evil practices and abuses: You are prepared, I presume, to point out to us what they are; some of them anyway?

Mr. POST. I can tell you the only weak point I can see in the hedge, and that is the spread between the option and the cash.

Mr. McLAUGHLIN of Michigan. That is the only one you know of?

Mr. POST. That is the only drawback I know of in the hedge proposition.

Mr. McLAUGHLIN of Michigan. I believe you suggested a remedy for that?

Mr. POST. No; the remedy that I suggested was in the matter of settlement between the various grades on a contract.

Mr. McLAUGHLIN of Michigan. Do you think that a law could be passed to correct the last trouble you speak of; and if so, what would it be?

Mr. POST. I must confess I do not know how to regulate that. It seems to me, though, that the option and the cash ought to stay more even than they do at times. How it can be changed I am not in a position to suggest even. It is too big a proposition for me. It always looked to me this way: That if the man is there to make the premium on the cash article, and that is shown by reason of the fact that there is a demand for the cash article, that it ought equally to create a demand for the speculative article. But it does not always do that.

Mr. McLAUGHLIN of Michigan. That is all I wish to ask.

Mr. TINCHER. Cash grain, No. 3, sold at Chicago on yesterday for $2.08 and May options at $1.80. That May option is based on No. 2 wheat?

Mr. POST. Yes, sir.

Mr. TINCHER. That is some little spread, between cash wheat and May options right now, isn't it?

Mr. POST. Yes, sir.

Mr. TINCHER. The farmers out in my country think that shows manipulation to keep the price of his product, not necessarily always down, but that that is the result, because in a few months, when he has no product to deliver, it will change. The farmer thinks that the price of his product is manipulated by the man who does not handle a bushel of it, except in an imaginary way, and that is for the purpose of showing it on a blackboard. They have a blackboard in your town?

Mr. POST. No, sir.

Mr. TINCHER. How do you trade in futures there—by telegraph?

Mr. POST. By telephone to Sioux City.

Mr. TINCHER. You spoke about hedging when you buy wheat from farmers. As a matter of fact, when you buy wheat from the farmers, the way you hedge is that you go on the future market and buy wheat again, don't you?

Mr. POST. Oh, no; I sell. We do the opposite, and finish the trade, so to speak.

Mr. TINCHER. If you get your wheat from the farmer and sell it to somebody else, then when that is done you buy the option in on the board of trade?

Mr. POST. Yes, sir.

Mr. TINCHER. You just double the transaction?

Mr. POST. A double transaction in each case.

Mr. TINCHER. But you do not treble the transaction?

Mr. POST. No, sir.

Mr. TINCHER. You do not sextuple the transaction?

Mr. POST. No, sir.

Mr. TINCHER. I learned on yesterday, for the first time in my brief career, that when one gets farther east that instead of doubling the transaction they sextuple the transaction.

Mr. MCLAUGHLIN of Michigan. That was at Duluth?

Mr. TINCHER. You pay one man for a double transaction, but this other man only paid one commission for a sextuple transaction.

Mr. POST. Well, he has got me beat.

Mr. TINCHER. I found that out. He said it was necessary to have the right to deal six times in one transaction out in that country in order to continue to exist. But you think the business will go on if you have the right to double it?

Mr. POST. We only make the one transaction, buying and selling. Of course, buying and selling for cash is perfectly legitimate to everyone's eyes.

Mr. TINCHER. And the other one is legitimate in a great many people's eyes—hedging.

Mr. POST. Yes, sir; it is in my eyes.

Mr. TINCHER. This man said that in order to hedge effectively he must have the right to take 10,000 bushels of wheat and handle it six times, representing 60,000 bushels of wheat. Were you here when he testified?

Mr. POST. Yes.

Mr. TINCHER. Do you understand that proposition?

Mr. POST. Well, I am in a different line of business. That was an exporting transaction, as I understood.

Mr. TINCHER. Not necessarily. He said he sold also to millers. He may sell for either grinding purposes or exporting purposes.

Mr. POST. I thought he said it went through the Lakes to Buffalo and was exported.

Mr. TINCHER. He explained fully that the wheat was either for milling or exporting. At any rate, you are both taking a product that is produced on the farms, and you are getting it in the hands of the consumer, and while you are using different methods, at a certain step in the game you pursue the same methods, and that is you hedge?

Mr. POST. Yes, sir.

Mr. TINCHER. If there is any evil in the proposition of dealing in futures, you are willing to have the Congress attempt to correct that evil?

Mr. POST. Sure.

Mr. TINCHER. You can not yourself understand why, when there is not going to be a bushel thrashed—and we know that—between now and May, and when the world's supply of wheat is visible and known to the wheat trade, wheat for May delivery should be 28 cents

under the price now if you should have it in Chicago for today's deliver?

Mr. POST. Well, that is quite natural to understand, it seems to me.

Mr. TINCHER. That is easy for you to understand?

Mr. POST. It seems to me so.

Mr. TINCHER. It is said that the people buying wheat in Chicago on yesterday were of two classes: First, the miller, who is going to grind the wheat; and, second, the exporter, who wants to export it. With that information I want to know how it is easy to understand why May wheat would be 28 cents more than the price of cash wheat?

Mr. POST. Because there will be three countries' crops on the market between now and May.

Mr. TINCHER. What three countries' crops do you refer to?

Mr. POST. The Argentine, India, and Australia.

Mr. TINCHER. Has Argentina thrashed its wheat yet?

Mr. POST. No.

Mr. TINCHER. When do they thrash?

Mr. POST. They harvest in January, I think, about now.

Mr. TINCHER. They have now the Government's estimate of the yield of wheat in the Argentine?

Mr. POST. Sure.

Mr. TINCHER. Where else did you say?

Mr. POST. In India and Australia.

Mr. TINCHER. When do they thrash?

Mr. POST. You have got me now into deep water, and I don't know.

Mr. TINCHER. You say it is easy to understand, and if it is easy for you to understand I would like to have you explain it to me.

Mr. POST. I say it is because those countries have not had their wheat on the market yet, but will have it on the market in May.

Mr. TINCHER. You say it is easy to understand and yet you do not understand it, and I do not understand it, and nobody has been here from any one of these exchanges who has explained it in any way. But I suppose it is easy to understand from what you say.

I make this statement because I anticipate there will be some men to challenge it, and if so, I want them to do so and then explain the matter. I think the only understanding is that the gamblers in wheat are holding the price of futures down in an attempt to hold the price of the cash article down, and that they are not ready yet to take their clean-up by having the price jump. That is my opinion of it, and I say that fully understanding that there are plenty of men in town here now and in the grain exchanges who will have the right to challenge it.

Mr. POST. Why don't they take the same attitude toward the cash article to-day, then?

Mr. TINCHER. If the gamblers would let wheat alone to-day it would sell for cost of production, because there is a sufficient demand for the product by the consuming public to have that result. But the gamblers, by manipulating futures, are holding the price 28 cents or 30 cents or 40 cents below the cost of production. That is my position.

Mr. MCLAUGHLIN of Michigan. Do you agree with Mr. Tincher on that?

Mr. POST. No; I do not. I do not see how I can when I stop to realize that wheat is the highest commodity to-day that is raised on the farm.

Mr. MCLAUGHLIN of Michigan. Highest in what respect?

Mr. POST. In cash value.

Mr. MCLAUGHLIN of Michigan. You mean as to the selling price of it?

Mr. POST. Yes, sir.

Mr. TINCHER. You are interested in the grain business?

Mr. POST. Yes, sir.

Mr. TINCHER. Your profit depends upon the fluctuations in the market?

Mr. POST. No; my profit depends upon my monthly salary.

Mr. TINCHER. Oh, you are just testifying from the standpoint of a salaried man?

Mr. POST. I am testifying for the company.

Mr. TINCHER. Their profits as a company—not as stockholders but as a company—depend upon the fluctuations in the market?

Mr. POST. Oh, no.

Mr. TINCHER. They do not want any fluctuations?

Mr. POST. As far as we are concerned as a company, it does not make any difference whatever either way.

Mr. MCLAUGHLIN of Nebraska. If the period of time for the consummation of future deals were made 60 days, would that interfere with your transactions?

Mr. POST. Yes, sir.

Mr. MCLAUGHLIN of Nebraska. What is the average time of your hedging contracts?

Mr. POST. I could not tell you the average time, but a lot of them run as high as six and eight months.

Mr. MCLAUGHLIN of Nebraska. Has any member of your cooperative organization become a member of a grain exchange?

Mr. POST. No, sir.

Mr. MCLAUGHLIN of Nebraska. Is any one of them a member of a board of trade?

Mr. POST. No, sir.

Mr. MCLAUGHLIN of Nebraska. Could they hold membership in either a grain exchange or on a board of trade if they wanted to?

Mr. POST. Yes, sir.

Mr. MCLAUGHLIN of Nebraska. You say they could?

Mr. POST. Yes, sir.

Mr. MCLAUGHLIN of Nebraska. Do you know that to be a fact?

Mr. POST. Why, memberships are for sale at all times to anyone of good character.

Mr. MCLAUGHLIN of Nebraska. There has been some testimony adduced here to the effect that no cooperative organization has ever been able to land a place on any board of trade or grain exchange; that for some mysterious reason they are barred. Do you know of any cooperative organization that has membership on a board of trade or grain exchange?

Mr. POST. No, sir.

Mr. MCLAUGHLIN of Michigan. The first question was if anybody connected with your cooperative organization was a member

of a board of trade. I do understand that they bar such organizations as an organization but they do not bar the members who make up such an organization, do they?

Mr. McLAUGHLIN of Nebraska. I mean as representing the organization. Of course, an individual might become a member; but I mean that no individual has a right as the representative of a cooperative organization on the board of trade.

Mr. McLAUGHLIN of Michigan. Your idea is that a man who is a part of a cooperative organization who asks for membership for himself individually would be permitted to have a seat on the grain exchange, but that if he asked for membership as the representative of a cooperative organization he would be refused. Mr. Post, do you understand that to be the situation?

Mr. POST. I never heard of anything like that before.

Mr. McLAUGHLIN of Michigan. None of your members, either individually and solely for himself or as representing the organization, has asked for any such memberbship?

Mr. POST. No, sir.

Mr. McLAUGHLIN of Michigan. You do not know what the practice of the exchanges would be in that matter?

Mr. POST. No, sir; I have no idea.

The CHAIRMAN. Do you contend that storing and hedging go hand in hand; if you abolish the future you would be compelled to stop?

Mr. POST. Yes, sir; in any quantity whatever.

The CHAIRMAN. You would have to fill your elevators?

Mr. POST. You can not do that, because you have only enough room to take care of the current business. At the present time we have twice the grain in store that is represented by the capacity of our elevators.

The CHAIRMAN. Outside of your storage would it be absolutely necessary to the elevator man?

Mr. POST. It is necessary in this respect——

The CHAIRMAN (interposing). Shortage of cars, of course; but how about outside of that?

Mr. POST. Well, you can handle grain on a much smaller margin of profit in that way than by holding it over and actually merchandising your stuff.

The CHAIRMAN. On cash transactions you do not hedge; you sell them on bids?

Mr. POST. No, sir.

The CHAIRMAN. Do you say you do not handle corn and oats in that way?

Mr. POST. No, sir; not one time out of a dozen. You always take a discount if you do that. Bids will average as high as 1 to 2 cents a bushel on wheat off the spot market. In selling on bids you are just giving the other fellow who takes the hedge for you all that premium.

The CHAIRMAN. You ship out grain for cash as quickly as you can get the cars?

Mr. POST. Yes, sir.

The CHAIRMAN. If you take a thousand bushels in to-day, do you sell a future?

Mr. POST. Yes, sir.

The CHAIRMAN. Practically every day?

Mr. POST. Yes, sir; every day that I buy a thousand bushels.

The CHAIRMAN. You ship your grain to Chicago?

Mr. POST. To the best market.

Mr. TINCHER. Do you mean to say that if you bought a thousand bushels of wheat on yesterday at your elevator you would hedge that by selling a future option?

Mr. POST. Yes, sir.

Mr. TINCHER. For what month would you sell?

Mr. POST. I would sell March to-day.

Mr. TINCHER. You would buy wheat if you could sell cash in Chicago at over $2—on yesterday it was $2.08—and sell a March option for $1.80?

Mr. POST. Yes, sir. But I could not sell that in Chicago at $2.08, as you speak of it, when I am out in the country. You have to have the wheat in Chicago in order to sell it for $2.08.

Mr. TINCHER. I understand; but the base is $2.08. You can sell it on the track and make a draft for it on the basis of $2.08, as it was in Chicago on yesterday?

Mr. POST. No, sir.

Mr. TINCHER. Why not?

Mr. POST. Because you could not get a bid.

Mr. TINCHER. You do not know what the bids were on yesterday for wheat on the track?

Mr. POST. No; but I do know what they have been on previous days.

Mr. TINCHER. Did you have any bids on yesterday?

Mr. POST. No; I am a good ways from home, and I could not know.

Mr. TINCHER. Your elevator had cards on yesterday morning with bids for cash wheat that would permit you to load wheat in a car, and it was their wheat then, based on certain deliveries?

Mr. POST. Yes, sir.

Mr. TINCHER. If you were selling it in Chicago, it would be the Chicago price less the freight charges to Chicago?

Mr. POST. It depends upon what you call the Chicago price. It would not be Chicago spot price.

Mr. TINCHER. If you bought wheat in your town on yesterday and sold an option at 20 cents less than the price of cash wheat, you were operating to help the gamblers to keep the price down, instead of using a legitimate hedge to protect yourself. You were making one of the many fictitious deals that is keeping the farmers' wheat down. If you say you need the hedge, why, when the future is 28 cents below the price of the cash product, it seems to me it shows the fallacy of the whole proposition. If the future was higher there might be some argument whereby you would need to hedge.

Mr. POST. It looks to me just the opposite—that with wheat selling at that price below, the gambler is not making very good headway in forcing the price of wheat down.

The CHAIRMAN. Why is it necessary to hedge a cash transaction?

Mr. POST. Simply because there is not one day out of a dozen that you can get a bid on wheat.

The CHAIRMAN. I am talking now mostly about corn and oats.

Mr. POST. Well, I tried to explain that a minute ago by saying that track bids on the basis of Chicago on corn will average from

2 to 5 cents a bushel less than the Chicago price for corn on the same day.

The CHAIRMAN. You often get other bids than from Chicago?

Mr. POST. Yes. Take the Quaker Oats Co., and the Douglas Co., when they were in business. But it was very seldom, except when corn was getting scarce, that you could get a bid that was as advantageous as your terminal market spots.

The CHAIRMAN. I understand that you can do better by selling direct than by going to Chicago?

Mr. POST. I do not necessarily mean Chicago.

The CHAIRMAN. If you buy 1,000 bushels to-day, and have an offer, say, of 62 cents for corn, and you accept that offer, that is the end of it?

Mr. POST. Yes; there is no future transaction in that.

The CHAIRMAN. Is there much need of hedging in case of cash transactions?

Mr. POST. If you are willing to sacrifice the difference in price between track bids and the others, no.

The CHAIRMAN. Oh, but there is a difference in price, as I understand it, and you say there is a difference?

Mr. POST. Yes, sir.

Mr. TINCHER. Your testimony is based upon the premise that there is not one time out of a dozen that you have a cash bid for wheat?

Mr. POST. Yes, sir.

Mr. TINCHER. Taking that as a proper premise to start from, I think you are right.

Mr. POST. In fact, I do not think I have had a bid on wheat for 40 days.

The CHAIRMAN. Iowa is not a wheat State?

Mr. POST. No; but we are in a wheat territory. It is a heavy wheat station, too.

The CHAIRMAN. We are very grateful to you.

Mr. POST. And I want to thank you gentlemen.

The CHAIRMAN. We will now hear Mr. Ray.

STATEMENT OF MR. W. J. RAY, OF BOONE, IOWA, REPRESENTING C. H. THAYER & CO., CHICAGO, ILL.

Mr. RAY. I will speak from the knowledge I have of the country end of the situation. I think that future trading as a hedging proposition for the grain shipper out in the country and for the farmer is very beneficial. It permits him to buy the farmer's grain, and in turn, sell a hedge against it, and ship grain whenever he can get the cars or it is convenient for him to ship, or that it is convenient for the farmer to deliver the grain. He does not need to have a specified number of days to do that in. Then when he ships his grain on to the market and he sells on the spot market, on the cash market, it sells on a competitive basis and he gets everything there is in the way of value for the grain, and he can, in turn, buy in his hedge at the same time with the proceeds of his cash sale. It makes a protection or an insurance for him.

There are possibly times, very few times, when the spread amounts to very much. And, as an illustration, fire insurance does not always

cover every dollar's worth of stuff that you have when you collect on a policy. I believe if it were not for future trades or the opportunity to hedge; in other words, if future trading were abolished, it seems to me, and I believe it to be true, that there would be times when the movement of grain from the country was large and the buying end or the consuming end might be very lax, that there would be hundreds and thousands of cars of grain, perhaps, that would go on the market with very little demand for it. In that case I can not see why there would not be great depression in the price.

And now take the reverse: There are times every month, and I guess times for periods of as long as six weeks, when there is practically no grain delivered from the country. The roads might be broken up by bad weather, or there might be snow blockades, or the farmers might be extremely busy putting their crops in, and they might be a little late getting to work, and yet there might be a foreign demand spring up, or a demand from the millers might spring up, or an industrial demand might spring up, and that demand would force the price up to a high mark.

I think, gentlemen of the committee, that under any of these conditions we would have much greater fluctuations than is possible under the present method of marketing.

I think that about covers my statement.

The CHAIRMAN. Any questions?

Mr. TINCHER. You live in Iowa, did you say?

Mr. RAY. Yes, sir.

Mr. TINCHER. What is your business?

Mr. RAY. I represent C. H. Thayer & Co., of Chicago, commission merchants.

Mr. TINCHER. What do you mean by representing them out there?

Mr. RAY. I work out in Iowa soliciting consignments, and do a good deal of merchandising in grain when there is an opportunity.

Mr. TINCHER. My recollection is that something like 80 per cent of the people who handle grain in Iowa do not deal in futures at all; is that right?

Mr. RAY. No, sir; I think that 80 per cent would be a little exaggeration. I know there are quite a good many that do not, but there is a large number that do.

Mr. TINCHER. Your trading is as traveling representative of C. H. Thayer & Co. with those who do it?

Mr. RAY. We do business with both. We do business with any of them.

Mr. TINCHER. That is all.

The CHAIRMAN. Let us take up one of these corn transactions. We have the morning paper before us. To-day No. 3 corn is 68½ cents. You are an elevator man. You take in the corn and pay the farmer 68½ cents.

Mr. RAY. Pardon me, is that 68½ cents the Chicago spot market?

The CHAIRMAN. Take this as the price in the country. You turn around and buy for May at 74⅜ cents. You have the use of the money until May. Corn goes to a premium, cash goes to 80 cents in the meantime, and where do you come in?

Mr. RAY. Well, if that should happen——

The CHAIRMAN (interposing). It does happen occasionally?

Mr. RAY. That is a very wide spread for corn.

The CHAIRMAN. Yes; but let us say it is less, for the sake of the argument.

Mr. RAY. Then your elevator would be the loser, to be sure, with that spread. On the other hand, if he buys corn of the farmer to-day at 68½ cents, and he does not do anything with it except store it, the market may change 10 or 15 cents on May before that corn is sold.

The CHAIRMAN. If he consigns and sells it, then the transaction is ended. The elevator is under no further obligation to the farmer, as that closes the transaction?

Mr. RAY. That closes it up between him and the farmer; yes.

The CHAIRMAN. And if it is consigned, of course, it is out of the hands of the elevator and sold?

Mr. RAY. It is not sold until it reaches the market, which may be 10 days.

The CHAIRMAN. If it is corn, you can sell it as quickly at home as you can anywhere else?

Mr. RAY. You mean sell it to arrive?

The CHAIRMAN. Yes.

Mr. RAY. Selling to arrive, the shipment may require a period of 5, 10, or 15 days, and oftentimes 30 days.

The CHAIRMAN. Yes; I understand, but I am talking about the future. The elevator man is the loser if that happens?

Mr. RAY. Yes, sir.

The CHAIRMAN. To-day you sell your corn at 68½ cents, and you buy for May delivery at 74⅜ cents, or, say, 74½ cents. That corn is discounted 2½ cents, is it not?

Mr. RAY. Why so?

The CHAIRMAN. Because that is the rule of the exchange at Chicago.

Mr. RAY. Do you mean if delivery of that corn is made?

The CHAIRMAN. Yes; it is discounted.

Mr. RAY. I think that is so.

The CHAIRMAN. And you as the elevator man did not discount it when you received it and bought it?

Mr. RAY. Yes; I bought it on the No. 3 corn basis. The discount might have been 2 cents, undoubtedly, or 2½ cents. If he had sold me No. 2 corn, I might have been able to pay him 2 cents more.

The CHAIRMAN. We are talking about No. 3 cash corn. You buy for May delivery for the same kind of corn, and you agree to pay the farmer the going price of your market. But you have sold it at 2½ cents less and you are the loser of the 2½ cents?

Mr. RAY. You are unless you have bought from the farmer with that understanding.

The CHAIRMAN. But you never buy with that understanding?

Mr. RAY. They buy the No. 3 corn at a price under the No. 2 corn, and the No. 2 corn is the contract grade.

The CHAIRMAN. But they settle with you at 2½ cents less than the quotations?

Mr. RAY. If I ship the corn on the contract.

The CHAIRMAN. Oh, there is no delivery. This is a hedging proposition?

Mr. RAY. Do I get you in this way: That I send the corn in and sell it on the spot market?

The CHAIRMAN. You are the elevator man, the farmer brings a thousand bushels of corn in, you store it for him, and instead of putting it in the elevator you sell it and keep the cash. You enter into a contract with the farmer for the 1st of May. The farmer comes in on the 1st of May for payment for his corn. The market is then 74½ cents, and you cash your hedge and it is 72½ or 71½ cents?

Mr. RAY. No; we just buy in the hedge on another contract.

The CHAIRMAN. No; it is under, then, for May delivery. The discount of No. 3 corn makes it in Chicago to-day 2½ cents less?

Mr. RAY. Well, I do not get your question. We sell that corn in Chicago as No. 3 corn; and we settle with the farmer for No. 3 corn. Of course, we have hedged in the contract grade, and if we buy in our hedge we buy that on the contract grade. So one offsets the other.

The CHAIRMAN. That is not the contract.

Mr. RAY. I do not know why it isn't.

The CHAIRMAN. I have been storing corn for 30 years and know something about storage; it is the going price. The elevator man takes in oats or corn at a certain price. Suppose corn is 62½ cents and the elevator hedges in January. In May the farmer calls for his money and the hedge is closed. According to the rules and regulations of the exchange now, he is loser at the rate of 2½ cents a bushel, because No. 3 is the contract price. No. 3 is what he buys and hedges, and No. 3 has a discount of 2½ cents a bushel?

Mr. RAY. No. 2 is what he hedges, and the contract grade is No. 2.

The CHAIRMAN. There is no specific grade. Take No. 1, No. 2, or No. 3.

Mr. RAY. Oh, yes; there is.

The CHAIRMAN. That is what we are trying to make. I think there ought to be a contract grade, and that ought to be the basis of the settlement. It ought to provide for premiums and discounts.

Mr. RAY. You ask that question of a member of the Chicago Board of Trade, who is more thoroughly versed in that than I am.

The CHAIRMAN. We have their rules and regulations. They admitted on yesterday that the difference in No. 3 wheat at one market was 3½ cents; that the fixed difference was 8 or 8½ cents in Chicago and only 5 cents in Minneapolis, a difference of 3 or 3½ cents, the fixed difference in one particular grade of wheat?

Mr. RAY. Well, I do not understand that.

The CHAIRMAN. What I am getting at is this: Should we leave it to the exchanges to determine values in the matter of difference in grades, or should it be left to a disinterested party, as it is now done with cotton?

Mr. RAY. Well, I do not know as to that, other than that the exchange men have had years of experience in working the matter out, and I confidently believe that they have done it to the very best of their judgment. If disinterested parties——

The CHAIRMAN (interposing). Without reflecting in the least upon the members of the exchanges, I want to say that they will, of course, work for their own interest and for what is to their best interest. When they fix the matter they will do as you or I or anybody else would do; they will look at it from the standpoint of their own interest, and I ask, Shall one contracting party determine the difference

and all the terms of the contract, or shall the other fellow also have something to say about it?

Mr. RAY. I think the country trade is satisfied with the present arrangement of grades.

The CHAIRMAN. Who are satisfied?

Mr. RAY. The country trade.

The CHAIRMAN. Well, then, you have not read the testimony that has been given before this committee in past years. They are not satisfied.

Mr. RAY. I will modify that answer. Of course, I am only speaking from what I know around our section of the country. As to the wheat territory, I do not know anything about wheat.

The CHAIRMAN. Dealers in oats are more dissatisfied than any others, if you take the hearings before the committee.

Mr. RAY. I feel like this: If disinterested parties can improve on the matter, very well. I think men engaged in any line of business are always ready for improvements or betterments.

The CHAIRMAN. I will ask you this question: Do you believe in regulation, or do you favor leaving everything to be determined by the exchange?

Mr. RAY. Well, that is a hard question to answer. I do not know just what the regulations would be. I do not know how extensive they are.

The CHAIRMAN. Do you believe in any regulation or in no regulation?

Mr. RAY. I believe in regulation all right if a thing is regulated for the betterment of all concerned in a given line of business.

The CHAIRMAN. If you contract with some one to deliver 1,000 bushels of grain—or it might be live stock—do you believe it should be left entirely to the seller to pick the terms as to the quantity and the quality? If you were a dealer and bought 100 head of cattle, do you believe as buyer that you should have something to say about the quality and the number to be delivered, or would you leave that entirely to the seller? Would you simply telegraph an order for 100 head of cattle and let the seller go ahead and fix all the conditions? That is what they are doing on the exchanges.

Mr. RAY. Well, that is, perhaps, true. But we know the regulations of the exchanges and what they are doing, and believe they are doing the very best they can.

The CHAIRMAN. And you know that a lot of them have gone broke. That a lot of them have lost their farms and their fortunes; I mean the producers.

Mr. RAY. What do you mean—the farmers?

The CHAIRMAN. Yes; any of them that are operating on the exchange. That is not reflecting on the exchange, but it refers to speculation. Some of them find fault with the contract?

Mr. RAY. That happens in all lines of business. There are bankrupts in every line of business in the country, I guess, occasionally, from mismanagement or something or other.

Mr. MCLAUGHLIN of Michigan. Is it true as far as you have observed that a large number of farmers have lost their property and gone broke, which was the expression that was used, on account of their dealings on the board of trade?

Mr. RAY. No, sir. I know but very, very few of them.

Mr. McLAUGHLIN of Michigan. Then you know of some?

Mr. RAY. No; if you take the farmers, I do not call to my mind any. There may be some, but I do not call to mind any that have come under my observation.

Mr. McLAUGHLIN of Michigan. The chairman said that it has been shown by the testimony or by reliable reports, as he understands it, that a large number of farmers have gone broke. What do you say about that?

Mr. RAY. I do not call to mind any farmers in our section of the country who have gone broke. Do you mean farmers in that question?

Mr. McLAUGHLIN of Michigan. You heard the chairman's question. Do you agree with him or not?

Mr. RAY. Not that many farmers individually have gone broke.

Mr. McLAUGHLIN of Michigan. Well, how about associations of one kind and an other? One, I presume, that has its business in the hands of a manager?

Mr. RAY. A manager and a board of directors. You are mentioning farmers' elevators and farmers' unions, I suppose?

Mr. McLAUGHLIN of Michigan. Yes.

Mr. RAY. They are under the management of managers and boards of directors.

Mr. McLAUGHLIN of Michigan. Some of those have lost and failed and found their transactions on the boards of trades to be detrimental to their business, have they?

Mr. RAY. I do not think so.

Mr. McLAUGHLIN of Michigan. Do you mean that they have all been successful?

Mr. RAY. There are some of them that have lost heavily. But in my view of the situation and knowledge of it, they have made the loss because they speculated on the article and not because they protected themselves with a future trade. In other words, they have, perhaps, bought—and lots of them did in the last year—of the farmer at the prevailing market price on to-day and trusted to consigning the grain in, and it was perhaps a week or 10 days getting on the market, and the decline in the market caused it to be sold at anywhere, 5, 10, or 15, or as high as 25 cents a bushel below what he could have realized on the farmers on the sale.

Mr. McLAUGHLIN of Michigan. Have you known where any of those farmers' organizations got into more or less serious trouble by the dishonesty of its manager?

Mr. RAY. That sometimes happens. It has happened.

Mr. McLAUGHLIN of Michigan. In what way would he operate improperly?

Mr. RAY. I suppose——

Mr. McLAUGHLIN of Michigan (interposing). I want your experience.

Mr. RAY. The only way I know of is that he might get to speculating and get on the wrong side and use the company's funds.

Mr. McLAUGHLIN of Michigan. By direction of his directors or board of control or whatever you call it?

Mr. RAY. No; not if he was purely speculating on his own accord, it would not be. But I think there is a very, very small percentage of them to whom that has happened. Of course, there are misdemeanors that will crop out in any line of business; as to bankers, for instance, a cashier sometimes goes wrong, and I presume not always because he has been speculating on the board of trade, either.

Mr. MCLAUGHLIN of Michigan. I presume sometimes managers, when they are doing business with the board of trade, call it whatever you please, speculating or hedging or taking care or pretending to take care of the business of the company that they represent, sometimes the manager will take to himself the result of good deals and throw the burden of poor deals on the company?

Mr. RAY. No; I do not know of any instance of that kind.

Mr. MCLAUGHLIN of Michigan. You never knew anything of that kind to happen?

Mr. RAY. No, sir; not that came to my knowledge. I have not proof of anything of that kind.

Mr. MCLAUGHLIN of Michigan. In your judgment, then, cases of dishonesty or unfair dealing on the part of managers toward their members, those who compose their association, is no larger than the proportion of cases of dishonesty of officers of banks?

Mr. RAY. No, sir; I do not think so.

Mr. MCLAUGHLIN of Michigan. I have been told that no small part of the prejudice of farmers, individually, and those who associate themselves in organizations of one kind and another, is due to the fact that managers have not acted with good judgment, and, in fact, have acted unfairly and dishonestly toward the organizations they represented. Would you attribute any considerable part of the dissatisfaction, such as you find existing, to the cause I speak of?

Mr. RAY. No.

Mr. MCLAUGHLIN of Michigan. There is a lot of dissatisfaction and opposition to the whole proposition of dealing on boards of trade. What do you attribute that to?

Mr. RAY. Do you mean among the farmers and among the farmers' organizations?

Mr. MCLAUGHLIN of Michigan. Yes. Some organizations refuse to do it themselves or permit their managers to do it.

Mr. RAY. Yes. I think this, that it is lack of knowledge on their part of the true motive of hedging. They have in mind, without doubt, that if a manager hedges their grain, or hedges his purchase on their grain or the stored grain that is shipped out, he is entering the speculative field. That, I think, is their attitude. On the other hand, it is not speculative at all, but merely protection. He is speculating if he does not do that. There are lots of farmers who like to store their grain, and it is for this reason that they can haul it and deliver it to the town at a convenient period. They may think that along in the future grain prices are going to be better. The country elevators are of small capacity, on the average. The manager, if he does store the farmer's grain, is compelled to ship that grain out in order to make room. The only protection he has is to ship it on to the market and sell it and buy some future against it. Then, when the farmer elects to come in and sell it to the manager on the market basis of that day, the manager, in turn, sells his future or hedge.

There may be a little spread there, and that sometimes happens, but it is not extensive as a rule. He is playing as safe as he can, and he has an open market now to play that stuff to the end. If he did not have an open market he absolutely could not store the farmer's grain, and he would have no protection whatever; and the farmer would be compelled to hold it back on his farm until such time as he elected to sell, which might be at some time when the movement was light, or when he was planting corn, or when the roads were broken up, or when for some other reason it was impossible to handle that corn satisfactorily. The farmer's objection to trading in futures and hedging is from lack of knowledge or lack of understanding of what it means. I have never talked to a good, sensible, wide-awake farmer yet but what, after explaining the thing to him, he looked at it in an entirely different way.

Mr. PURNELL. There is speculation in the hedge?

Mr. RAY. To a small degree.

Mr. PURNELL. Just half of it is speculation, isn't it?

Mr. RAY. Well, the other side, of course, maybe, but not entirely so.

Mr. PURNELL. It may be that once in a great while the fellow who is on the other side is also hedging?

Mr. RAY. Yes, sir.

Mr. PURNELL. For instance, A might be a grain farmer and has grain and sells a hedge against it until his grain gets on the market. B is taking stored grain of the farmer and shipping it out, and he might take a hedge. It could happen that those fellows are taking opposite sides of the same hedge?

Mr. RAY. Yes, sir. Any other questions?

Mr. EVANS. I would like to ask a question or two.

The CHAIRMAN. All right.

Mr. EVANS. In your answer to the question asked by the chairman, as to the persons who had become bankrupt by reason of operating upon boards of trade, you answered: Yes; because of mismanagement or something or other. What I desire to know about is who you include in the term "or something or other"?

Mr. RAY. Well, mismanagement or misjudgment on his part.

Mr. EVANS. You have just mentioned mismanagement. You used mismanagement or something or other, which means, of course, something in addition to mismanagement. What did you include in that term?

Mr. RAY. I do not know that I particularly meant anything by the words "something or other."

Mr. EVANS. All right. That is all.

The CHAIRMAN. We are very grateful to you.

Mr. RAY. I wish to thank the committee.

The CHAIRMAN. We will now hear Mr. Chamberlain.

STATEMENT OF MR. F. A. CHAMBERLAIN, OF THE FIRST NATIONAL BANK OF MINNEAPOLIS, MINNEAPOLIS, MINN.

The CHAIRMAN. You may proceed with your statement in your own way.

Mr. CHAMBERLAIN. I have nothing prepared on this matter, Mr. Haugen. I know something about the grain question from the bankers' standpoint. I have been connected with the First National Bank

of Minneapolis, and the combinations that resulted in that bank, for the last 40 years. I was a member of the chamber of commerce when it was first started in Minneapolis, but my knowledge of the grain business and of the marketing of grain and of the way the grain business is carried on, is largely from the standpoint of the banker.

Minneapolis, as you all know, is a large cash market for grain. We have great elevator capacity there, as well as in Duluth, and during the year the grain is selected and stored in those terminal elevators, and is there for use by the millers, who are the large consumers, of course, of grain.

I know that the terminal receipts for grain that are issued by the terminal houses are issued under rules prescribed by the chamber of commerce, and their receipts are registered by officers of the State of Minnesota or by officers of the chamber of commerce, and such receipts have always been looked upon as the very finest collateral security in this country for commercial loans. I do not put anything ahead of them, because I know that there never has been a time in my experience in banking that money could not be raised on those terminal receipts. I know that they stand far ahead of stock-exchange collateral or any other collateral that I know anything about. One of the reasons for that is the fact that during all the years I have been in business I have never known any loss to occur to anyone who made a loan on such receipts. And one of the reasons for the security of those receipts is the fact that the holders know that proper margins will be kept up, so that the holders of the notes, who are secured by this kind of collateral, know they will be protected at all times. One of the reasons for that situation is the fact that this grain is either owned by millers who expect to grind it and have secured themselves by the sale of flour against the wheat or by the sale of grain in the future market.

In other words, I know that under the present system of handling grain that from a banker's standpoint it has been very safe and secure collateral. And I do not think it could have been handled in the way it has, with such large quantities of grain stored in the terminal houses waiting for future distribution without the broad market which has been afforded by this system for the marketing of grain.

The CHAIRMAN. What percentage is advanced or loaned on terminal receipts?

Mr. CHAMBERLAIN. That depends upon the price of the grain. If grain is very high we usually require notes on a larger margin on the collateral than if it is at a low price.

The CHAIRMAN. If wheat was selling at a dollar a bushel?

Mr. CHAMBERLAIN. A 10 per cent margin is then all right?

The CHAIRMAN. I had reference to the banking transaction.

Mr. CHAMBERLAIN. Yes, sir.

The CHAIRMAN. Banks will loan 90 cents on a bushel?

Mr. CHAMBERLAIN. Yes, sir.

The CHAIRMAN. The future adds to the security of the collateral?

Mr. CHAMBERLAIN. Yes, sir; it does.

The CHAIRMAN. It stabilizes prices and in what way the security?

Mr. CHAMBERLAIN. In that it makes a wider market, of course, and stabilizes prices.

The CHAIRMAN. Have any members any questions?

Mr. WILSON. As a matter of comparison, how is security on grain as compared with that on cattle, as it is looked at by banking institutions?

Mr. CHAMBERLAIN. I do not think there is any comparison. Of course, I refer to loans secured by chattel mortgage on cattle, where a bank or a cattle company is properly organized, and I regard that as a secure loan. However, we have never loaned very much money on cattle.

Mr. WILSON. You are not familiar with the comparison, then, I suppose.

Mr. CHAMBERLAIN. I know this: You can see readily that grain, which has an everyday cash market, would be, or at least in my opinion, a little higher grade collateral than any other collateral. I would not except any.

Mr. WILSON. That would be my opinion, but I wondered what you bankers up in the northern country thought.

Mr. CHAMBERLAIN. That is the way we regard it.

The CHAIRMAN. There are certain banks that make a specialty of loans on cattle, are there not?

Mr. CHAMBERLAIN. Yes, sir.

Mr. TINCHER. The grain itself is a good security for a business transaction such as you have described, where a man is financially responsible and has a proper margin in the grain, isn't it?

Mr. CHAMBERLAIN. Yes, sir. If the grain is located where we know that we have a legal claim on it.

Mr. TINCHER. Now, are you a member of any grain exchange?

Mr. CHAMBERLAIN. No, sir.

Mr. McLAUGHLIN of Michigan. You said you were a member of the chamber of commerce?

Mr. CHAMBERLAIN. I was at the time it was started, many years ago. It was a very small affair, and many of the citizens of Minneapolis took membership. I paid $25 for my membership, but I sold it many years ago. It would sell now for $9,000 or $10,000.

Mr. TINCHER. It would sell now for what amount?

Mr. CHAMBERLAIN. Oh, for something like $9,000, I think.

Mr. TINCHER. That is all.

Mr. CHAMBERLAIN. I said something about the quantity of grain that is stored in those terminals. If you would like to hear about it I will go further into it. I noted at one time, in 1918, there were over 60,000,000 bushels of grain in the terminal houses at Minneapolis and Duluth, in March, 1918, I think it was—the largest amount of grain in recent years at any one time. Of course, that grain was very largely accumulated by reason of the ability of the owners to borrow money against it. The market there for that class of paper is very large. I have never seen the time when money could not be raised on those wheat receipts, and I regard the fact that that has been the case as being very largely due to the absolute security of the lender, in being able to feel that his margin would always be kept up and that the owners of the grain were protected in holding it, that they were not speculating in the grain.

Mr. TINCHER. That was in 1918?

Mr. CHAMBERLAIN. That was the time that I remember when we had such a large supply.

Mr. TINCHER. In 1918, when the Government had charge of wheat, the banks solicited small fellows and elevator men to borrow money, didn't they? I know that some of the Kansas City banks did. I remember a case when I was with a gentleman from my district, who wanted to arrange a loan to further the packing industry. They told him they did not have any money. And yet the same day the banker told me to tell elevator man in my town to fill up their elevators and send in affidavits that he had the security, and that the money was there for him. I just happen to remember that circumstance. I accounted for that at the time by reason of the fact that money was easy for one thing and not for another thing, that there was a guaranteed price by the Government on wheat, below which it could not go.

Mr. CHAMBERLAIN. Of course, that was an element of security to the lender.

Mr. TINCHER. But they have not solicited any loans on wheat in the past six months that I know of.

Mr. CHAMBERLAIN. Well, there has never been want of a market for paper secured by grain receipts. That is the point I want to make.

Mr. TINCHER. What do you mean by grain receipts? Describe the actual physical collateral put up with the loan? The man puts up his note and what else?

Mr. CHAMBERLAIN. In that case the man stores his wheat in what we call a terminal elevator in Minneapolis. It is a public warehouse, and the man in charge thereof issues a receipt, giving the quantity and quality. That receipt is registered by a State official, and that receipt accompanies the note. We also have, unless the grain is stored in a fireproof warehouse, fire insurance to cover.

Mr. TINCHER. That constitutes the transaction?

Mr. CHAMBERLAIN. Yes, sir.

Mr. TINCHER. That is the paper that he puts up?

Mr. CHAMBERLAIN. Yes, sir.

Mr. PURNELL. I assume that your conclusions, as just stated, are based on actual transactions in grain?

Mr. CHAMBERLAIN. In lending money on grain.

Mr. PURNELL. In transaction involving the actual product?

Mr. CHAMBERLAIN. Yes, sir; in loaning money on the actual product.

Mr. PURNELL. In which case the grain is in the elevator and against which hedges have been sold?

Mr. CHAMBERLAIN. Yes, sir.

Mr. PURNELL. What is your opinion about the purely speculative transactions on grain exchanges, in which no grain is delivered or expected to be delivered?

Mr. CHAMBERLAIN. Well, as I say, I am not as familiar with that feature of the business as I am with the money loaning end of it. But I have no question in saying that the freer the market, the wider the market, of course the better the security.

Mr. PURNELL. You would not loan any money, however, on a transaction that did not involve actual grain?

Mr. CHAMBERLAIN. Oh, no. We always require actual grain as security.

Mr. PURNELL. Are you in a position to tell us whether or not in your judgment a purely speculative transaction has a stabilizing effect on the market?

Mr. CHAMBERLAIN. Oh, I have no question but what it has.

Mr. PURNELL. You think it has?

Mr. CHAMBERLAIN. Yes, sir.

Mr. PURNELL. You think that feature ought not to be eliminated from the present system?

Mr. CHAMBERLAIN. I am very sure the marketing of grain would be restricted in that case. And if that were eliminated there would have to be wider margins by the people who deal in grain, unquestionably, because unless they could protect themselves by ready sales for future delivery, there is no question but what they would require a larger margin. And, of course, the amount of trading would be very much restricted.

Mr. PURNELL. By speculative deals I mean transactions in which no grain is ever delivered or expected to be delivered, and transactions which we generally regard as strictly gambling deals. Do you think that such transactions are necessary, and that that practice is necessary in order to give stability to the grain market?

Mr. CHAMBERLAIN. Well, I can only judge by the experience of the past, and I know that we have had, under the conditions which exist to-day, a free market at all times. I have never seen the time when you could not raise money on grain.

Mr. PURNELL. Do you think that that condition would not exist if the speculative features were eliminated?

Mr. CHAMBERLAIN. Why, I can say that we would loan money on grain on some basis. If wheat were $2 or $3 a bushel we would want a very large margin, and we would want to know the people we were loaning money to before we would make a loan. We would not loan with the freedom that we do now, and would not loan on as small a margin.

Mr. PURNELL. Then in your judgment the purely speculative features enure to the benefit of the producer?

Mr. CHAMBERLAIN. They unquestionably are a stabilizing influence, in that the market that they make for the sale of grain and the purchase of grain is very much wider than it otherwise would be.

Mr. MCLAUGHLIN of Michigan. Perhaps the answer to the question I am going to ask can be gathered from what you have already said about stabilizing the market, but will you particularize a little and give your opinion as to the effect on the producer of grain, the effect that the operation of the exchanges have on the producer of grain, and whether it is for his benefit or otherwise?

Mr. CHAMBERLAIN. Well, Minneapolis is the center of really a very large system of what we call country elevators. They extend out all through the northwest. The farmer brings his wheat to those elevators. The man who operates an elevator receives the cash market price of grain every day. If grain is $2 a bushel he knows exactly what he can pay for that grain, because he reports the amount that he buys at once, and that grain is sold to arrive, as they call it, or in some future market, so that they know exactly the margin that they have to make in order to be safe. And that margin is very much smaller than would necessarily be required were it not for the freedom with which

sales can be made under the present system of running grain exchanges.

Mr. McLAUGHLIN of Michigan. Then, in your opinion, if it were not for the grain exchanges the farmer would not receive as much for his grain as he now receives under this system, generally speaking?

Mr. CHAMBERLAIN. I am sure of that.

Mr. McLAUGHLIN of Michigan. You have stated that all through that section of the country there are farmers' elevators and organizations operating elevators. Are you able to tell us what proportion of those indulge in hedging or buying futures, and what proportion do not?

Mr. CHAMBERLAIN. I can answer it in this way, that we loan a great deal of money to commission men. We have a credit department at our bank, and we make it a business to know whether these elevators do hedge their purchases or not. We would not deal with a concern that did not protect its purchases. That is, we would not loan them money without that security as freely as we do now; and we could not do it because we would feel that they were the ones that were speculating. We feel that the only safe way they can buy that grain is to hedge it. They know then what they are doing. If they should buy it in the open market without any hedge we should call it a pure speculation.

Mr. McLAUGHLIN of Michigan. You spoke of commission merchants?

Mr. CHAMBERLAIN. The man who buys wheat from the farmer.

Mr. McLAUGHLIN of Michigan. You are speaking of the elevator men back in the country?

Mr. CHAMBERLAIN. Yes, sir.

Mr. McLAUGHLIN of Michigan. In your judgment you think he ought to hedge?

Mr. CHAMBERLAIN. Yes, sir; I think it necessary in order to play the game safely.

Mr. McLAUGHLIN of Michigan. Do you know some of those elevator organizations that do not hedge?

Mr. CHAMBERLAIN. I do not know of any specifically. I understand some of them at times do not hedge.

Mr. McLAUGHLIN of Michigan. What is their experience in business, so far as you know?

Mr. CHAMBERLAIN. Oh, it is disastrous. It can not help but be. If they attempt to do business at the present time without hedging their purchases——

Mr McLAUGHLIN of Michigan (interposing). Well, the present time is a little abnormal. Ordinarily how would it be?

Mr. CHAMBERLAIN. Well, at any time. They may guess right and make some money, but they may also guess wrong. It is purely a matter of individual opinion, and that I call speculation.

Mr. McLAUGHLIN of Michigan. You know, I presume, that there is some opposition to the exchanges. And that there is demand for legislation to abolish them or to regulate them. What do you think is the reason of that demand on Congress for the abolition of the exchanges or for drastic regulation of them?

Mr. CHAMBERLAIN. Well, I think the experience of this fall has been a good illustration of what you mean, perhaps. The farmers

could have sold their grain at a much higher price than prevails at the present time had they sold it at the time it was harvested. They had a feeling that grain was going higher, and out in our country there was a general disposition on their part to hold grain. However, markets from the time grain was harvested this year began to sag, and went down so that there was a wide difference between the price that prevailed at harvest time and that which prevailed 30 days ago. I think that that drop in the market is the cause of the agitation. They had to have some reason for the mistake that they made, and I think it was rather natural that inasmuch as they had to blame somebody that they put it on the exchanges. I have not heard anything except that the farmer lost money on this year's crop by reason of labor conditions, etc. I presume that such an experience as they have had this fall might result in a criticism of that kind.

Mr. McLAUGHLIN of Michigan. Some of the gentlemen who have appeared before this committee and given us the benefit of their knowledge on the subject, tell us that this opposition, this demand for legislation, etc., comes only from those who are ignorant of real operations of exchanges. Do you think that is true?

Mr. CHAMBERLAIN. I do, yes, to this extent: I think that the farmer or the farmers' elevators—and we have a great many farmers' elevators up in our country—the successful farmer elevators at least are just as much in favor of hedging their purchases as any other grain men.

Mr. McLAUGHLIN of Michigan. And there are some that are not successful, and I gather from what you have said that the reason of their failure is their refusal to hedge?

Mr. CHAMBERLAIN. I think the chances of their failure are very much greater if they do not hedge than if they did. There can be no reasonable comparison between the two situations.

Mr. McLAUGHLIN of Michigan. There could be other reasons for their failure, but one of the reasons, in your judgment, is their failure to hedge?

Mr. CHAMBERLAIN. Yes, sir.

Mr. McLAUGHLIN of Michigan. That is all I wish to ask.

Mr. HULINGS. Suppose one of those terminal houses, as you call them, those warehouses, should buy wheat from the farmer, getting it in in quantities, and issue its certificate, say for 1,000 bushels of wheat, and sell that on the market; is that the usual way of trading?

Mr. CHAMBERLAIN. Well, our terminal houses never buy directly from the farmer.

Mr. HULINGS. Their wheat comes from the elevators around in the country. That is where they get their wheat, I suppose?

Mr. CHAMBERLAIN. Well, the terminal houses buy their grain right on the floor of the exchange from whoever has it to sell, but they buy it, of course, for storage purposes.

Mr. HULINGS. Some one must buy the grain that is represented by a certificate?

Mr. CHAMBERLAIN. Yes, sir.

Mr. HULINGS. How does a storehouse get the grain that is represented by a certificate?

Mr. CHAMBERLAIN. They buy it on the floor of the exchange.

Mr. HULINGS. They do not handle it—the commodity itself—on the floor of the exchange? There must be some place where it is.

Mr. CHAMBERLAIN. They buy it right on the floor by samples or grades—one way or the other.

Mr. HULINGS. Is that grain bought on the floor of the exchange represented by the certificate of any warehouse?

Mr. CHAMBERLAIN. The grain that they buy is probably in a car in transit. They have a sample of the grain and buy it that way.

Mr. HULINGS. When they get it they issue a certificate for it?

Mr. CHAMBERLAIN. When they get it and put it in their bins they issue a certificate.

Mr. HULINGS. When they sell it do they transfer the certificate?

Mr. CHAMBERLAIN. Certainly.

Mr. HULINGS. Would you see any objection to such a concern when it clears wheat in that way, and in order to protect itself, selling, I think you said, on a to-arrive basis?

Mr. CHAMBERLAIN. Well, anything that they sell has already arrived and in storage. When they sell it it is there.

Mr. HULINGS. When they sell it whatever is sold is represented by their certificate that they have the grain on hand?

Mr. CHAMBERLAIN. Yes, sir.

Mr. HULINGS. What would there be to prevent any person from acquiring title to that grain through the possession of that certificate and selling that certificate to any other person who wanted to buy the grain and agreeing to deliver it at such and such a time? That would be a future, wouldn't it?

Mr. CHAMBERLAIN. I do not know that I thoroughly understand you.

Mr. HULINGS. Well, a man has bought the certificate?

Mr. CHAMBERLAIN. Then he gets possession of the certificate.

Mr. HULINGS. Yes.

Mr. CHAMBERLAIN. He could do whatever he has a mind to do with the grain, then.

Mr. HULINGS. If he sells that certificate or makes a contract with some other person to take that certificate and the grain off his hands at a specified time in the future, that would be practically a future, wouldn't it?

Mr. CHAMBERLAIN. Well, he would be selling the actual grain for future delivery.

Mr. HULINGS. Wouldn't that accomplish everything in the way of hedging that is necessary? In that case the transaction would be represented by a certificate of grain actually in the storehouse.

Mr. CHAMBERLAIN. Well, you can see that if that were the case——

Mr. HULINGS (interposing). And if that was all that was necessary, wouldn't that cut out all of the purely gambling operations that are indulged in where it is not intended that a deal should be consummated by the delivery of any goods?

Mr. CHAMBERLAIN. Well, I do not know that I thoroughly understand you, but I have the idea. Say a warehouseman has 100,000 bushels of grain in his warehouse. He pays $2 a bushel for it. If he can sell it for $2.10 a bushel, to be delivered in three months from that time, and that 10 cents a bushel will cover his insurance

and his cost of storage and a margin of profit, that is the transaction that he wants to make. If I understand your question correctly, I think the market for selling that grain would be restricted if there were no purchases except by the man who actually wanted it, perhaps, to grind it into flour, or to export it, to export it to Europe or something of that kind. But the fact that a man can now go on the floor of the exchange at the same time that he buys the grain and make a sale for future delivery gives a ready market. He does not care who buys the grain. The purchaser has to put up a certain sum with the chamber of commerce to insure that he will carry out his contract. That is all the terminal house wants to know—the fact that it can go and make a sale without any further inquiry than as to the cash put up to secure the fulfillment of the future contract. That is all he cares to know.

Mr. HULINGS. Suppose a man comes into your bank with a certificate for 1,000 bushels of actual grain stored in some warehouse, of a certain grade, and it is worth $2 a bushel on the market. Assuming that you would loan, say, $1.75, you would regard that as good security, would you not?

Mr. CHAMBERLAIN. Surely.

Mr. HULINGS. Then, suppose the market goes down to $1.80 or $1.90, would you call for more margin?

Mr. CHAMBERLAIN. We have a clerk, several of them, in fact, who during the market season for grain have that as their business, every morning to get the market on grain, and, if necessary, to call for margins. It is a daily occurrence.

Mr. HULINGS. That would be a perfectly safe transaction, would it not?

Mr. CHAMBERLAIN. For the bank?

Mr. HULINGS. Yes.

Mr. CHAMBERLAIN. Yes, sir.

Mr. HULINGS. Then what is the necessity, in order to give the bank greater security, that there should be gambling operations going on, which you say have a stabilizing influence on the market?

Mr. CHAMBERLAIN. Well, the only people that borrow money from us in carrying grain are (1) millers, who are buying grain for use from day to day and have to protect themselves either by selling flour against the grain or by selling the future market for grain, so that they may be protected at all times; and (2) terminal houses themselves, or grain dealers, commission merchants, and so on.

Mr. HULINGS. That is, where the actual goods are handled?

Mr. CHAMBERLAIN. With us it is all based upon actual grain. I see what is in your mind, I think, and from the fact that we know that the means are at hand to protect the party who borrows from us, that, to our minds, is one of the elements that makes more for the security of our money. In other words, if the market were restricted, as I believe it would be if these attempts to restrict it were carried into effect, we would be very much more loath to loan money than we are under present conditions.

Mr. HULINGS. Just one other question: I do not know very much about these things of which I am going to speak, but I have listened here for several days and find that commission men, exchange men, banking people, and so on all seem to be of one mind. Therefore I

want to ask you why there should be all over the country, in nearly every town in the East, people who get together in so-called bucket shops—or that was the former name for them, but I think now they are called wire houses? A whole lot of people in the little towns may be found sitting around a room betting on the quotations that they see put up on a blackboard. And in all these exchanges you will find men doing the same thing. And all you have to do is to go down on the curb on Broad Street and you will find a whole lot of scalpers bucking the market one way or the other—people that never sell anything or buy anything, but who are simply betting on what they think is going to happen in the market. Do you think that those people perform a valuable function in the trade?

Mr. CHAMBERLAIN. I have never had anything to do with that class of people.

Mr. HULINGS. But you know they are there. Do you think they are of any use to the community—those scalpers and other fellows? They are there so many hours in the day betting on the quotations.

Mr. CHAMBERLAIN. I do not remember that I was ever in one of those places, and certainly I never bought or sold a bushel of wheat myself. My knowledge of this situation is from the banker's standpoint.

Mr. HULINGS. Bankers must know what is going on in the exchanges; and I am asking you whether you thought that element, which makes up such a large proportion of business going on in these exchanges, is a valuable function of the trade?

Mr. CHAMBERLAIN. I do not know what proportion of the trades in the exchanges they represent. But I know that any amount of trading that is legitimate—and I imagine there is no trading on the chamber of commerce that is not legitimate, or it would not be allowed—I know that any legitimate trading has a tendency to broaden the market, and that a broadened market is of advantage to the grower.

Mr. HULINGS. I would still like to ask for your opinion, from your large experience in the past, whether those scalpers and gamblers perform any real function in the trade?

Mr. CHAMBERLAIN. My experience has not extended in that direction at all.

Mr. HULINGS. If that is the only answer you can give, never mind.

Mr. MCLAUGHLIN of Michigan. I presume that in your bank a considerable part of your loaning business is just along the lines you have described?

Mr. CHAMBERLAIN. Yes; I think that at the present time we have over $30,000,000, and perhaps $35,000,000, loaned directly to the grain men and the flour-milling industry. It is the greatest industry we have in Minneapolis.

Mr. MCLAUGHLIN of Michigan. In or connected with just such transactions as you have mentioned?

Mr. CHAMBERLAIN. Yes, sir.

Mr. MCLAUGHLIN of Michigan. As to $35,000,000, what proportion does that represent of your total loans?

Mr. CHAMBERLAIN. Our loans at the present time are between $60,000,000 and $70,000,000, so that it is pretty nearly half of our total loans. At times it is more than half of our total loans.

Mr. McLAUGHLIN of Michigan. Some one might ask, then, whether your bank is run for the benefit of the exchange or the exchange is run for the benefit of your bank?

Mr. CHAMBERLAIN. We run our bank for the benefit of the community, and are trying to run it in the way that is safest. There is no class of business that we get that we regard as giving us greater safety than the grain business.

Mr. McLAUGHLIN of Michigan. It would not be right to say, or would it, that the bank pretty nearly becomes a part of the exchange—the place where the men who are operating there can get their money to carry on their business?

Mr. CHAMBERLAIN. We hope that we are a helpful part of the business.

Mr. McLAUGHLIN of Michigan. That is all.

Mr. DICKINSON. You say that all this different equipment of the exchange that tends to broaden the market is beneficial and assists in steadying the market?

Mr. CHAMBERLAIN. I think so.

Mr. DICKINSON. Would you take off all restrictions and let it be an open Monte Carlo, and let them bet as they want to, and buy or sell as they want to, having no rules or regulations?

Mr. CHAMBERLAIN. No, sir; by no means.

Mr. DICKINSON. You would not want to go that far. You spoke of these wire houses. You know the purpose of these wire houses, don't you?

Mr. CHAMBERLAIN. Yes, sir.

Mr. DICKINSON. What is the purpose of a wire house?

Mr. CHAMBERLAIN. To store grain.

Mr. DICKINSON. No; I didn't say warehouse, but I said wire house.

Mr. CHAMBERLAIN. Oh, you mean a wire house?

Mr. DICKINSON. Yes, sir. These shops that Mr. Hulings was talking about.

Mr. CHAMBERLAIN. Oh, I did not catch the distinction there in your first question. That is a means of getting into communication with the markets all over the world.

Mr. DICKINSON. Isn't that a means of gathering in the lambs from the country for slaughter?

Mr. CHAMBERLAIN. You are now getting into a realm that I do not know about.

Mr. DICKINSON. As a matter of fact, that is where the great percentage of the speculative transactions come from on the board of trade, isn't it?

Mr. CHAMBERLAIN. Why, every time grain is put into a terminal house I imagine the people who deal in grain are in constant communication with the markets for grain all over the world. They have to be in order to know how to handle their business. A wire house is simply—the same as a post office, only a much better one—a means of communication, and you know by wire you can get the information more quickly.

Mr. DICKINSON. Let us take these little country plants, where the wire runs out into a little country town, and there are fellows sitting around betting on the rise or fall of the market. They exist on your exchange up there, don't they?

Mr. CHAMBERLAIN. Are you speaking now of country towns?

Mr. DICKINSON. Yes.

Mr. CHAMBERLAIN. I have no idea whether they do those things up our way or not.

Mr. DICKINSON. You know nothing about whether your exchange accepts bids from those distant wire points that extend out into the country?

Mr. CHAMBERLAIN. I have no doubt that anyone who has grain to sell will accept a bid from anyone who has the money to pay for it, if they know they can get their money.

Mr. DICKINSON. As a matter of fact, you think that even these small wire points tend to broaden the market, to bring in speculators, and that that has a beneficial effect on the market as a whole?

Mr. CHAMBERLAIN. Well, if a bid for grain comes from one of those points, that of itself answers your question. It does broaden the market, and there is one source of selling.

Mr. DICKINSON. But you are aware that a great many future contracts sold up there in the Minneapolis Chamber of Commerce do not represent any grain, and are purely speculative transactions, in which no grain is in the warehouse and no grain is delivered, and no grain is expected to be delivered, don't you?

Mr. CHAMBERLAIN. We never make any inquiry as to where the grain was sold when we loan money on it.

Mr. MCLAUGHLIN of Michigan. Had you finished your answer to that question? Do you mean to tell us that you do not know whether the statement made by Mr. Dickinson is correct or not?

Mr. CHAMBERLAIN. I know that there are trades made, or I believe there are. But I know nothing from actual experience, because I sit behind a desk and loan money on grain. And I am very, very careful to get the grain itself. I do not take any promise to get it, but get the actual stuff. If you are going to ask me questions about the running of bucket shops or of wire houses in the country, I will say now that I am not sufficiently posted to give you any useful information.

Mr. MCLAUGHLIN of Michigan. Mr. Dickinson's question related to transactions on the Minneapolis Exchange, and he asked if you did not know that many of them did not contemplate the purchase or delivery of real grain.

Mr. CHAMBERLAIN. Many of them undoubtedly do contemplate the purchase and delivery of real grain.

Mr. MCLAUGHLIN of Michigan. Many of them do, you say? Therefore, many of them do not?

Mr. CHAMBERLAIN. That may be.

Mr. DICKINSON. The point I was getting at is whether or not a future sale without a warehouse receipt showing the actual possession of grain would be any security in your bank.

Mr. CHAMBERLAIN. It would, if the proper margin was put up in cash. You must remember that every time a sale or a purchase is made there has got to be something put up that will insure the fulfilling of the contract.

Mr. DICKINSON. In what percentage is that of the cases, usually?

Mr. CHAMBERLAIN. I could not tell you. I am not posted on that.

Mr. DICKINSON. As a matter of fact, aren't you aware that the percentage is very small?

Mr. CHAMBERLAIN. I could not tell you. I am absolutely ignorant of those details.

Mr. DICKINSON. You do know that a future sale of grain, to be delivered in the future, on a future market, without any warehouse certificate showing actual possession of the grain is security in your bank?

Mr. CHAMBERLAIN. Haven't I fully answered that?

The CHAIRMAN. I believe that Mr. Chamberlain said that he had to have as security a certificate of the commodity.

Mr. DICKINSON. Let the reporter read his answer. I do not think that is just his answer.

Mr. CHAMBERLAIN. I think I have answered that, but maybe I have not answered what the gentleman had in mind.

The CHAIRMAN. I believe Mr. Chamberlain said he was dealing on receipts.

Mr. CHAMBERLAIN. It is not the receipts you are talking about now, but the transactions.

Mr. DICKINSON. He said he would make a loan without any warehouse certificate if enough margin is given.

Mr. CHAMBERLAIN. We do not have any transactions contemplating such a case as you have mentioned.

Mr. DICKINSON. I think you ansewred that you did.

Mr. CHAMBERLAIN. If I answered in the way that you have suggested it was because of a misapprehension of what you were getting at.

Mr. DICKINSON. I do not want to be misunderstood at all. Suppose a reputable firm brings in a future sale of so much wheat?

Mr. CHAMBERLAIN. What would he bring in if he brings in a future?

Mr. DICKINSON. It is a contract of sale for future delivery, but he does not accompany it with a warehouse certificate showing the actual receipt of grain?

Mr. CHAMBERLAIN. Well, I would not look at him. I would want collateral when I loan money. If a man comes in and tells us he has made a future trade and has nothing to show possession or control of the commodity, there is nothing to act on.

Mr. DICKINSON. I wanted that cleared up.

Mr. CHAMBERLAIN. Well, I think that is clear.

The CHAIRMAN. The witness made that clear at the start, I think.

Mr. DICKINSON. But in his later answer he did not indicate it that way. You think that an elevator man can not run his business safely without doing a hedging business?

Mr. CHAMBERLAIN. I do not see how he can.

Mr. DICKINSON. You are aware of the fact that in the State of Michigan less than 3 per cent of the elevators use the hedge in their purchases?

Mr. CHAMBERLAIN. No, sir; I am not aware of it.

Mr. DICKINSON. And in Iowa less than 50 per cent do any hedging?

Mr. CHAMBERLAIN. Then I am sorry for them.

Mr. DICKINSON. And up in North Dakota 94 per cent of them do hedging. You think that the grain business is transacted on a safer margin in North Dakota than it is in the State of Michigan or the State of Iowa?

Mr. CHAMBERLAIN. Well, I wonder if the fact that the greater part of the grain of this country—that is, milling grain—is raised out in North Dakota and South Dakota and in those Western States would not have something to do with it?

Mr. DICKINSON. Why, Kansas raises more winter wheat than South Dakota.

Mr. CHAMBERLAIN. You have not said anything about the elevators in Kansas not hedging.

Mr. DICKINSON. Less than 20 per cent of them hedge. Now, as a matter of fact, is the hedging system as now carried on in the Minneapolis territory largely through the arrangement of the commission firms and banking organizations up there, whereby they have worked out the system which works best for their purpose, and therefore they require it of their borrowers? And isn't it the working of this system out in Minneapolis that brings about hedging in your territory?

Mr. CHAMBERLAIN. That may be. If it is the case, I think it is a very salutary one. I believe it is the very best protection to an elevator man, and as the result of it I believe the farmer gets more for his grain than he would get if grain were bought without any protection.

Mr. DICKINSON. You are thoroughly converted to the system?

Mr. CHAMBERLAIN. In my case it has worked.

Mr. DICKINSON. Let us go one step further: Suppose I am running a section of land in North Dakota, and I have reason to believe I will raise 20,000 bushels of wheat. And let us suppose that before I put my money, my labor, and my land into that wheat, I go and sell a future for September or December delivery. Would you advocate that system for the wheat growers of North Dakota?

Mr. CHAMBERLAIN. No, sir; a hail storm might come along and take that wheat away in one night.

Mr. DICKINSON. Well, a fire might come along and take the warehouse in a night.

Mr. WILSON. That is insured.

Mr. DICKINSON. You can insure your wheat. Would you advocate going that far with the hedging system?

Mr. CHAMBERLAIN. That is, for the farmer to sell wheat before he has planted it?

Mr. DICKINSON. Yes.

Mr. CHAMBERLAIN. No.

Mr. DICKINSON. Don't you think he has money invested in the production of his crop, the same as the man who has his money invested in wheat when he buys it?

Mr. CHAMBERLAIN. Well, wheat in an elevator is a good deal safer, and you are nearer to the commodity than you would be in the case of seed grain that has not yet been planted. I would not want to go that far.

Mr. DICKINSON. You take the average crop in Iowa for the last few years——

Mr. WILSON (interposing). And in Illinois.

Mr. DICKINSON. Yes; we will add Illinois. And you can get delivery on about a certain percentage of the crop, can't you?

Mr. CHAMBERLAIN. I should think so.

Mr. DICKINSON. Would you advocate, then, that the Iowa farmer, in a State where we do not have crop failures, selling corn on the September or the December market against his crop before he plants it?

Mr. CHAMBERLAIN. No; I would not.

Mr. DICKINSON. Let me ask you one more question and I am through: Do you have any small banks or interests in small banks out in the rural communities?

Mr. CHAMBERLAIN. Have I any interest in such banks?

Mr. DICKINSON. Yes.

Mr. CHAMBERLAIN. No.

Mr. DICKINSON. In Iowa, if I understand the banking situation, if a banker knows that a man is dealing on a board of trade, or selling futures against his crop, it would depreciate his rating with the bank at least 85 per cent, and in some cases 100 per cent. And yet I can not see the distinction as to why, if it is necessary for the elevator man to hedge on the money that he invests in wheat, it is not necessary for the Iowa farmer to hedge when he puts his money into raising wheat or oats. I can not see the distinction you are trying to make between the man who buys it and the man who raises it?

Mr. CHAMBERLAIN. Well, I am looking at the question, as I told you at the beginning, from the standpoint of a banker. And I am thoroughly convinced that the system that we have been working under, and by reason of which we have not lost any money loaned on actual grain, and we do loan money on actual grain, is a good system. I am convinced that one of the factors has been the wide market for grain. I am convinced that that wide market has resulted in better prices to the farmer than would have been the case if the market had been very much restricted.

Mr. DICKINSON. Don't you think that if the Congress were to pass a law to prevent future dealings in grain that your banking system could be made to fit it?

Mr. CHAMBERLAIN. That is a matter of experiment. My feeling is that any legislation looking to restricting the market for grain will be harmful rather than beneficial. But that is only my opinion.

Mr. HULINGS. I would like to ask Mr. Dickinson a question: Your fellow has a farm, and has got some seed wheat, and some muscle and all that sort of thing, and expects to grow 10,000 bushels of wheat on a farm. Do you think it would be anything improper for the man who owns that farm to turn around and sell those 10,000 bushels of expectant wheat if he can find a buyer at a price that would be satisfactory to him?

Mr. DICKINSON. In my judgment if the present hedging system and the present marketing system is a good thing and necessary in all its phases, then it would be just as legitimate for that farmer to hedge his grain as it is for the elevator man to hedge his grain.

Mr. HULINGS. Do you think it would be anything improper for me to-morrow—and I drill some oil wells sometimes—to agree to sell oil from a well not yet started, if I could find some buyer who would agree to take it on the 1st of December; say 1,000 barrels of oil? There would be nothing improper in that if I could find a taker for the contract, would there?

Mr. DICKINSON. I do not think there would be any harm in making a contract, if they did not get you for defrauding. And whenever

the farmers get to selling their crops before they plant the seed, we will get the reputation of being the greatest gambling nation on the earth, and will make America a regular Monte Carlo.

Mr. EVANS. Let us take a concrete case, and suppose that a man with 100,000 bushels of wheat stored last July, should come to your bank to borrow on it, and would state that he had no hedge and did not intend to hedge. What percentage of the value of that wheat would you make a loan to him?

Mr. CHAMBERLAIN. Last July or now?

Mr. EVANS. Last July, or change it to August, if you prefer.

Mr. McLAUGHLIN of Michigan. What would be the price of the wheat?

Mr. EVANS. I asked for what percentage of the value would Mr. Chamberlain make a loan?

Mr. CHAMBERLAIN. I imagine that the price of wheat in August was over $2 a bushel, wasn't it?

Mr. EVANS. I think somewhere around $2.20 of $2.40.

Mr. CHAMBERLAIN. Well, if we knew the wheat was in a terminal house, and we had the registered receipts for the grain, we would loan him within a margin of 20 per cent, if we knew the man and knew he was responsible.

Mr. EVANS. Suppose he came in and satisfied you that he had a hedge on it, what percentage would you loan him?

Mr. CHAMBERLAIN. We do not ask those questions because no one ever comes with grain of that kind that is not hedged.

Mr. EVANS. You have just answered as to a case in which there was no hedging. Now, I am asking you what you do in a case where it is hedged?

Mr. CHAMBERLAIN. We would not ask the question, because we would assume that it was properly hedged or he would not offer it.

Mr. EVANS. Suppose, in the first instance, he told you that it was not hedged, without your asking him?

Mr. CHAMBERLAIN. Well, it would have to be a peculiar case to loan to him at all. We would require a bigger margin, for one thing.

Mr. EVANS. That is exactly what I asked you. What would be the amount that you would loan to him when he told you that it was not hedged? Say you had the actual wheat in the elevator, with the receipt, and insured, and everything you have mentioned except the hedge; and suppose he would say to you, I have not got it hedged and I am not going to hedge?

Mr. CHAMBERLAIN. The responsibility of the borrower would be a factor.

Mr. EVANS. Well, take an ordinary customer like you usually deal with. What is the difference in the percentage of the amount that you would loan to him?

Mr. CHAMBERLAIN. Well, I have explained to you a little about the people who come to us to borrow on wheat. No one comes to borrow on wheat receipts except the terminal elevator men or the flour mill men or the commission merchants, and they are all people of good standing on the floor, and the only thing we look to, if they are of that class, is the margin. And it is the same for the one as for the other. If they are legitimate, people doing business with us right along and we know them, that is what we would look to.

Mr. EVANS. Let me see if I have properly understood you. Your statement boiled down from your answers is, that the customers you deal with, you would loan to them regardless of whether they hedged or not because they are responsible people?

Mr. CHAMBERLAIN. Back of it all is the fact that we know the people who come to us do hedge their wheat. You can see that backed by a custom that has prevailed for 25 years, as we know it has prevailed, we are not asking every one who comes whether it is hedged or not.

Mr. EVANS. I will put it in another way: Is your business and custom such that you do not know the difference in the amount you would loan between actual wheat and hedged wheat?

Mr. HULINGS. He said he would not loan if it is not hedged.

Mr. EVANS. Then, he can answer that question.

Mr. CHAMBERLAIN. I guess you will have to ask that again.

Mr. EVANS. I will ask the reporter to read the question.

(Which was done.)

Mr. CHAMBERLAIN. We never ask whether wheat is hedged or not of the class of borrowers we loan to on terminal receipts. We assume that it is hedged.

Mr. EVANS. Well, then, to get back to the other question, you do not know, in the case of such a transaction as I presented to you, what amount you would loan on the actual wheat?

Mr. CHAMBERLAIN. In case it were not hedged, you ask?

Mr. EVANS. Yes.

Mr. CHAMBERLAIN. No; I do not know the amount we would loan.

Mr. EVANS. If that is true, your statement is that you really do not know as to the value of the hedge?

Mr. CHAMBERLAIN. Why, I think you all understand me, that we are dealing with a class of people that we know protect themselves in every way that they can. If Mr. Jones or Mr. Smith were in the flour milling business there and came to me and wanted to borrow money on wheat receipts, I would know that they had protected themselves on that wheat by selling flour or by selling grain. We do not always ask that question. I do not know that I have ever asked the class of people who borrow from us: Have you hedged this wheat, and where and in what marpet and what future months? I get the grain, and get plenty of margin, and I know that I am loaning to reputable people, and that is as far as we go in the matter.

Mr. EVANS. As to your lending being based on the hedge, I want to direct your attention to what the security is that the hedge furnishes. Are the men who are handling this stuff—and I am talking now about the hedged security—men who are in goor circumstances?

Mr. CHAMBERLAIN. Yes, sir.

Mr. EVANS. And they are prosperous in their business?

Mr. CHAMBERLAIN. Yes, sir.

Mr. EVANS. Then the making of the hedge is of itself a matter of profit to the one who insures, isn't that true?

Mr. CHAMBERLAIN. To the man who makes the sale?

Mr. EVANS. No; to the man who handles or makes the hedge?

Mr. CHAMBERLAIN. It is a matter of profit to him?

Mr. EVANS. It is a matter of profit to himself; yes.

Mr. CHAMBERLAIN. The man who buys the grain?

Mr. EVANS. The man who takes the hedge, I mean.

Mr. CHAMBERLAIN. Well, that is the purchaser of the grain, isn't it?

Mr. EVANS. What do you call the man to whom he sells the grain?

Mr. CHAMBERLAIN. I call him the purchaser.

Mr. EVANS. Then that second purchaser. He is a good business man and successful and prosperous in his business, isn't he?

Mr. CHAMBERLAIN. Well, if he comes to us with receipts——

Mr. EVANS (interposing). We have passed the man who comes to you. I am talking about the man who purchases a hedge from the man who came to you.

Mr. CHAMBERLAIN. I do not know about that.

Mr. EVANS. He may be in Chicago, and he may be a man who is worthless financially, may he not?

Mr. CHAMBERLAIN. I would not assume that he is worthless.

Mr. EVANS. It is one of the two. You are either relying on the man who has the hedge or your security or you are not.

Mr. CHAMBERLAIN. I know that the purchaser, whoever he may be, secures that contract by putting up a margin of money.

Mr. EVANS. Then he or some banker who has trusted him is responsible and prosperous?

Mr. CHAMBERLAIN. I think I have answered your question as well as I can.

Mr. EVANS. What I am getting at is this: You are securing from the hedge an insurance. If you have insurance that is worth anything you get it from a prosperous man. If the person furnishes you an insurance he must get pay for it, and if he does not get paid for the risk he must lose ultimately. Is that true?

Mr. CHAMBERLAIN. Well, you are getting a little beyond the realm I am familiar with.

Mr. EVANS. All right.

The CHAIRMAN. Reference has been made to the difference between hedging in North Dakota and in Kansas. I think conditions are entirely different in North Dakota and in Kansas. Kansas has very largely a market of its own, has it not? There are a large string of mills in Kansas, while there are very few large mills in North Dakota?

Mr. CHAMBERLAIN. They have a few mills in North Dakota, but very few.

The CHAIRMAN. I believe that in Kansas wheat is sold directly to the mills, while North Dakota wheat is sold on the exchange, there being but few mills in that State. Wheat is sold outside of the State, which accounts for the difference in the habit of hedging. There is less necessity for hedging in Kansas than there is in North Dakota. Is that not correct?

Mr. CHAMBERLAIN. I imagine the millers in Kansas protect their purchases of wheat by sales of flour or by sales of grain, just as the millers in Minneapolis do.

The CHAIRMAN. In North Dakota the wheat is consigned to commission men, while in Kansas the wheat is consigned to the millers. I am very grateful to you, Mr. Chamberlain.

Mr. CHAMBERLAIN. And I wish to thank you.

The CHAIRMAN. We will now hear from Mr. Spaulding.

STATEMENT OF MR. C. L. SPAULDING, WARREN, MINN.

The CHAIRMAN. Kindly state what your business is.

Mr. SPAULDING. I am engaged in farming 1,600 acres of land, and also am running a small line of country elevators in northern Minnesota and North Dakota.

I am in favor of the present system of marketing, from the standpoint of the farmer, because that is the only way, as I can figure it out, which will give me the highest cash premium daily in the Minneapolis or Duluth markets. I am disturbed over any interference which would tend to narrow the scope of that market. I am speaking from the standpoint of the farmer.

And possibly I may be able to give this committee some information on selling wheat from the farmers' standpoint which so far they have not had.

Mr. PURNELL. Do you think that the opinion just expressed is shared by other farmers—large farmers—in your section of the country?

Mr. SPAULDING. I am certain that it is, in my section of the country.

Mr. PURNELL. Do you know of any prejudice against the present system of marketing in your section of the country?

Mr. SPAULDING. No, sir; not in my section.

Mr. TINCHER. He says they are all satisfied.

The CHAIRMAN. You may continue your statement.

Mr. SPAULDING. It probably seems to you peculiar that the farmer would be in favor of future trading. I might say this, that I personally benefited by the kind of insurance that the member at the corner of the table suggested, or thought possible that the farmer might take, last spring.

Mr. PURNELL. I am wondering if the average farmer really has any definite and fixed opinion about this matter, or does he go in and accept the conditions that exist, and sell his grain to the elevator man, without reasoning out why he is able to find a ready sale for his product? What do you think he takes into consideration there; that the elevator man has a hedge and thereby he is protected and it creates a market for him, or does he do that? Does he simply accept the conditions existing and have no fixed or definite opinion about it?

Mr. SPAULDING. The average farmer in our locality does not accept anything for granted. He knows the thing from A to Z. I am speaking of the average farmer.

Mr. PURNELL. He knows when he takes a thousand bushels of grain in to the elevator man that the elevator man hedges again that purchase?

Mr. SPAULDING. He knows that the elevator man will not live in the business if he does not protect himself every time he buys, I mean protect himself in some manner, either by selling directly to a mill, or if he can not get cars, by selling futures at that time.

Mr. PURNELL. Of course, you are more familiar with it because you evidently raise the grain. Do you have a line of elevators?

Mr. SPAULDING. Yes, sir.

Mr. PURNELL. I am wondering how the man who is strictly a producer, in either a large or a small way, feels about it?

Mr. SPAULDING. He feels about the way I said, I think. Do you mean feels about whether a man should protect himself who buys or not?

Mr. PURNELL. Yes.

Mr. SPAULDING. He hesitates to leave for storage any amount of grain not in a concern which is known to protect itself at all times, and not speculate as a concern.

Mr. PURNELL. The thing I am most concerned about in these hearings is the purely speculative end of it. It seems to me that the consensus of opinion as expressed by the most of the witnesses is, that there are good features about this present system of marketing. Therefore the matter I am concerned with is whether or not the farmer wants the speculative features maintained, and whether or not he is benefited by them. And when I say speculative features, I mean the purely speculative features, the deals made by men who have no grain and never expect to have any grain.

Mr. SPAULDING. The farmer wants a market where he can sell the actual stuff, or if he still wants to hold it he can buy a future. If he still wants to hold it, or wants to gamble, whereby he can get the money himself.

Mr. PURNELL. You think if he profits by it he does not care what happens?

Mr. SPAULDING. I did not say he profits by that chance. It might encourage him to speculate. I will not say about that as I do not know.

Mr. PURNELL. Do any of your farmers do any hedging themselves.

Mr. SPAULDING. Yes, sir.

Mr. PURNELL. That is, they hedge their grain that is on the farm; I mean they hold it on the farm and then sell a hedge against it?

Mr. SPAULDING. No; the way they generally use the hedge is to sell it to protect themselves against the future decline, or to get 80 per cent of the money to use, and still get the advantage of a possible rise.

Mr. PURNELL. What percentage of the producers in your section use the hedge?

Mr. SPAULDING. Oh, probably 10 per cent, and they are mostly people who deal in larger quantities; not the man who raises 1,000 bushels, but the man who raises 10,000 or 20,000 or 30,000 or 40,000 bushels.

Mr. PURNELL. Another thing I am interested in, in connection with these hearings, is to determine, if possible, whether or not the market is actually affected by speculation or manipulation to the detriment of the producer.

Mr. SPAULDING. I could not say whether the market could be manipulated to the detriment of the producer or not. I do believe that the fact of the speculator having a chance to bet or speculate or invest, whatever you want to call it, broadens the scope of the market, and it gives the producer a chance always to have somebody to buy. Without him there would be times when the large mills and the large terminal elevators might not be in the market, for some reason or other.

Mr. PURNELL. The principal objection seems to be that there always exists the possibility that men of large means buying and

absorbing large quantities of commodities, and thereby forcing the market down or forcing it up quickly, and that they may do so to the detriment of the man who actually grows the stuff, or, more particularly, by forcing it down at the time when he has to have something on it, has to sell his product.

Mr. SPAULDING. Well, there is no time in our section of the country when the farmer really has to sell, because the most of them are fixed so that they can hold the bulk of their product if they want to, at least a part of the time, unless there is practically a crop failure. Then the so-called manipulator, from the farmers' standpoint, works to his advantage, because he often, pointing to a crop failure, manipulates it for a rise. That is the reason the farmer likes him. They would not like the manipulator who would try to depress prices, if it could be done.

Mr. PURNELL. You do not want to see the present system disturbed?

Mr. SPAULDING. I do not want to see the present system seriously disturbed; no, sir.

The CHAIRMAN. Any other questions?

Mr. SPAULDING. I wanted to explain, if you were interested, how the option assisted me this particular year.

Mr. VOIGT. As a grower?

Mr. SPAULDING. Yes, sir. Now, it seems that every farmer who is a shipper and ships his own grain to obtain the full benefit of the competitive-sample market in Minneapolis, or in Duluth, but principally Minneapolis, handles his car there, so that they can see the samples. It goes on a to-arrive basis from the country, 20 days delivery, and there are very few people who bid for it on that basis.

The CHAIRMAN. Is there a uniform rule of 20 days?

Mr. SPAULDING. Yes, sir.

The CHAIRMAN. Does that apply to all markets?

Mr. SPAULDING. Yes, sir. There are specific times when you can get extensions, but these to-arrive bids have always been 5 cents under the competitive price, and in order to get the highest competitive price, or the only way it can be done, would be if the man was satisfied with the general price, say, $2.50, and if he were satisfied with that, he could sell his hedge and ship his car in, and by reason of its being sold on the track yesterday, get 5 cents more, and purchase back an equal amount. That is the reason it helped me as a farmer this year to the amount of $1,000 at least. If they would bid to arrive, as they will when put on a competitive basis, and have open markets at all times, it would make some difference to the farmer. He does not possibly because most people won't use that kind of wheat. That is the point I had reference to.

The CHAIRMAN. Your contention is that you can get 5 cents more for your wheat by hedging than by selling to arrive?

Mr. SPAULDING. Yes, sir; because it gives me a chance to get the full premium.

The CHAIRMAN. We thank you.

Mr. SPAULDING. And I wish to thank you for this opportunity.

The CHAIRMAN. We will now hear the next witness, Mr. Stratton.

STATEMENT OF MR. H. M. STRATTON, PRESIDENT OF THE CHAMBER OF COMMERCE, MILWAUKEE, WIS.

Mr. STRATTON. Gentlemen of the committee, the Milwaukee Chamber of Commerce is one of the oldest grain exchanges in the West. It is not at present one of the leading future markets, but it is a very considerable cash market, and handles from 70,000,000 to 90,000,000 bushels a year of spot grain.

We are oppcsed to all legislation that will restrict trading in futures on the exchanges as it is now practiced, because we believe that the exchanges are performing an important public service. I think the grain-marketing methods, which include trading in futures, which have been developed under conditions of the keenest competition over a period of from 40 to 50 years, are economically sound and provide for the flow of grain and its products from the producer to the consumer at the very smallest margin of profit.

We think that in order to have a successful market you must have big crops, but the most important thing is keen competition. We do not believe that that competition is possible if there is no opportunity of hedging grain in the sale of futures. We do not think that the banks will finance the small dealer unless the banks know that they are protected and that the dealer is not standing to take a big market loss. So if the small dealer is not able to carry on the grain business as he is to-day, if he can not get the money to finance that business, it is reasonable to suppose that in a very short time the business will be in the hands of a few large concerns, of great financial resources, and that the margins between producer and consumer would be very much larger.

At the present time we all know that we have nothing like trust control in the grain business. There is no other line of business that I know of where the competition is as keen as it is to-day in the grain business. We believe that is because the small dealers, who have ability and integrity, are able to go to the banks and borrow a great deal more money to engage in the grain business than they might be able to borrow for almost any other line of business. No doubt that is partly true because it is considered first-class collateral in itself: but the banks would not loan anything like the amounts that they now loan to grain handlers unless they felt sure that those handlers were amply protected against market losses. If they did they would get sick.

We in Milwaukee are engaged in buying and shipping grain very largely, buying it in the West and shipping it to eastern points. We handle some wheat but more corn and oats than anything else.

A point has been made here to the effect that the southwestern elevator owners do not hedge in the sale of futures. We make a practice of putting out so-called card bids overnight to the country elevator people. We also put out overnight quotations to buyers in the East. The southwestern people, I think pretty generally, instead of hedging their purchases by the sale of futures, sell their grain on card bids to arrive to people like ourselves, who are engaged in the marketing of that grain and who put out bids overnight. In the Southwest they get daily bids from exporters and from millers and from terminal elevator operators. We are engaged in putting

out just that sort of bids. I think we are typical of those houses who do that regularly.

I want to say that if we were not able to hedge our purchases, should they exceed our cash sales, which they frequently do, we would not be able to put those bids out in the country without figuring on a very much larger margin of profit than we do at the present time. I think all grain dealers when they speak of hedging do not mean that they hedge every transaction that they enter into, but they either buy or sell futures to even themselves up on the market as they go along.

If we were to put out card bids all over the West to-night and were to buy 100,000 bushels of grain, and if we were at the same time to put out quotations to our customers in the East who buy from us and were to sell only 50,000 bushels overnight, we would sell 50,000 bushels in the future market with a hedge against our excess purchases. Or we would perform the reverse operation if we happened to sell more overnight than we bought.

My experience has been that we never find that the country is disposed to sell grain and the eastern trade is disposed to buy grain at one and the same time. Our purchases and sales very seldom match up. We find that if we are to get the business at all we have to sell the eastern buyer grain when he wants to buy it. We can not tell him when to buy it. And we have to take the grain from the western shipper when he wants to ship it; and that means the farmer, when he is ready to sell it. It very seldom occurs that these two trades will match up; that is, the western farmers will not be willing to sell at the time the eastern people are buying.

The result is that we have inquiries from our customers in the East for corn or oats to be shipped four or five months later. We will figure out a price and sell it to them and protect ourselves by buying a future that most nearly corresponds to the time of delivery specified in our sale.

On the other hand, a great deal of grain is offered in the West at a time when we are experiencing no demand from the East, but we will buy that grain and pay the market price for it and protect ourselves by selling futures. In that way we even ourselves up all the time and take no unusual hazard of a market loss.

It is for that reason that the banks will loan us a great deal more money than they would if they thought we were standing open on large purchases or sales.

On yesterday Mr. Voigt, I think, asked some questions about the commissions involved in this tremendous speculative trading which does not represent actual deliveries. I have outlined here a typical shipment of cash wheat from the country to the ultimate consumer with a view to showing you just what that wheat would have to stand in the way of margins all the way through. A typical shipment of wheat would be sold by a farmer to a country elevator man, who might be an independent elevator owner or a line-house elevator operator, or a cooperative elevator operator. We will say that he sends it to the terminal market to be sold by the commission man. He might sell it direct to a miller, but we will take the longest route. The commission man, when it reaches the terminal market, will sell it to a miller or to a terminal elevator.

The CHAIRMAN. When you say the longest route you mean the usual route, do you not?

Mr. STRATTON. I want to give you what would be involved in as long a transaction as we can get. The commission man will sell it to a miller or to a terminal elevator operator at the terminal market. If he sells it to a miller, that miller may sell it to a wholesale grocer or to a flour jobber. That wholesaler will sell it to a retailer, and the retailer will sell it to the consumer.

Of course, we know it to be a fact that frequently the miller sells to large bakers direct, and that would eliminate two of those people from the transaction. We also know that it is a fact that frequently the country-elevator man would sell to the miller direct. In that case only three people would be involved. But if it takes the longest route there would be six transactions in a typical shipment of wheat from the farmer to the consumer. If it were sold to a terminal-elevator man at the market instead of to the miller, he probably would in turn sell it to an exporter at the seaboard, or he might sell it to a miller located farther east, who in turn might sell it to a wholesaler and then to a retailer and then to the consumer.

The CHAIRMAN. You mean by selling it to a wholesaler after it is manufactured into flour by the miller?

Mr. STRATTON. Yes, sir. He might sell it to a wholesale grocer. I do not say he will, but on a big-volume transaction he might. The point I wish to make on that is that, even though there might be involved a tremendous lot of speculative trading, that much of the commissions are paid by those involved in them, and are not a direct charge against the grain, and are not borne by the producer or the consumer. Those trades pretty well even themselves up, and those who are engaged in the trading pay the expenses.

Mr. VOIGT. Maybe you did not get the point that I tried to make. We all know that there is a great deal of gambling going on on the exchanges. You know and I know that men speculate in wheat who never expect to see the wheat. They are simply speculating and gambling on the future price. For instance, suppose that I think wheat is going up, and I am speculating. I go to my broker and tell him to buy me so many thousand bushels of wheat, and I deposit a certain margin. Now, then, if my guess comes through and wheat goes up 2 or 3 or 5 cents a bushel, I am satisfied with my profits, and I order him to close it out, and I take my profit. Of course, I do not ever expect to see any wheat, and the man who was on the other end of that deal, or to whom that deal might have been transferred, did not ever expect to see any wheat. You will admit that any number of such transactions are made on the exchanges, won't you?

Mr. STRATTON. Yes; they may be.

Mr. VOIGT. Why do you say they may be?

Mr. STRATTON. Well, I say that, Mr. Voigt, because you say the man who buys it from you does not expect to ever see it, and in fact he may expect to see it.

Mr. VOIGT. He may expect to see it; but you know, as a matter of fact, that in millions of such cases neither side to the transaction ever contemplates any delivery of wheat?

Mr. STRATTON. Well, delivery is contemplated in the contract, but I admit that a very large volume of trading is purely speculative,

if you please, and I favor trading of that kind, because I think it is to the benefit of the public at large.

Mr. VOIGT. Well, of course, that is a point on which people may differ. But getting back to the point I had in mind, it was this: Suppose that all of the real transactions and all the speculative transactions would amount to selling every bushel of wheat that is raised in this country this year 100 times. That would mean that somebody in the aggregate had paid 25 cents on the turnover on that bushel of wheat?

Mr. STRATTON. Yes, sir; but it does not mean that either the producer or the consumer pays any part of that.

Mr. VOIGT. I did not say that.

Mr. STRATTON. I know you did not. I think I get the point you wish to make.

Mr. VOIGT. I said that that 25 cents was, in my judgment, largely an economic loss to the country. In other words, if this hedging process is a good thing, then the country as a whole, assuming that every bushel of wheat was turned over 100 times, is paying an insurance charge of 25 cents per bushel?

Mr. STRATTON. No; I do not think that that is quite a fair statement of it. It means this, perhaps, that those engaged in speculative trading have wasted a part of their effort which might have been directed to better pursuits. But the fact is that the commission charges which accrue on that volume of speculative trading are pretty well evened up between buyers and sellers, and it is not a charge against the grain.

Mr. VOIGT. I did not say that that whole thing is charged against the grain. I do not believe it. But I do say that it is a loss to the Nation, because there is that amount of energy, represented by that amount of money, which results in nonproduction.

Mr. STRATTON. Well, perhaps, those people engaged in speculative trading could put in their time to better results, but that is all the loss there is to it. A portion of their effort is wasted, perhaps, but the commissions which are earned and charged against that speculative trading are divided up pretty evenly among those engaged in them.

Mr. VOIGT. I did not say that the producer or the consumer stood it. It may be some fellow who is a shoemaker that takes a flyer in wheat, and whether he wins or loses he pays that quarter of a cent.

Mr. STRATTON. Yes; that is right.

The CHAIRMAN. Thank you, Mr. Stratton. The committee will now stand in recess until 2 o'clock.

(Thereupon, at 12 o'clock and 15 minutes p. m., the committee recessed until 2 o'clock p. m.)

AFTER RECESS.

The committee met pursuant to recess, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will now hear Mr. L. F. Gates.

STATEMENT OF MR. L. F. GATES, OF LAMSON BROS. & CO., REPRESENTING THE CHICAGO BOARD OF TRADE, CHICAGO, ILL.

Mr. GATES. My name is L. F. Gates; I am a member of the firm of Lamson Bros. & Co., commission merchants. I also represent the Chicago Board of Trade. In opening, Mr. Chairman, I would like to make three requests:

First, that when I begin to make my statement I be allowed to complete it without interruption, and then I shall gladly submit to questions, although I hope my statement to anticipate a good many of your inquiries.

The CHAIRMAN. Proceed in your own way.

Mr. GATES. Second, that the Federal Trade Commission is requested to furnish by 4 o'clock to-day, if possible, the figures showing the total value of sales of wheat for future delivery on the Chicago Board of Trade from July 15 to July 31, 1920, both dates inclusive, with the amounts on each day, if that data is available.

I understand the data is readily available, but it is not available to me; it is available to this committee.

The CHAIRMAN. Is Mr. Watkins in the room?

Mr. WATKINS. I am here. I can give the quantity traded in during that period.

Mr. GATES. I will ask for that when I come to that point in my statement.

Mr. WATSON. I do not have it as to dates.

The CHAIRMAN. Mr. Gates, do you suggest that the committee ask the Federal Trade Commission for that data?

Mr. GATES. I ask that you request it of them, so that I may have it available in order to determine as to the amount of trading in July.

Mr. TINCHER. July of last year?

Mr. GATES. July, 1920.

Third, that the Bureau of Internal Revenue of the Department of the Treasury be requested to furnish for inclusion as a part of the published report of these hearings the data in its possesion showing separately by grains the total volume of sales of wheat, oats, rye, and barley for future delivery each month in each of the following years: 1918, 1919, and 1920, on each of the following grain exchanges or boards of trade: Chicago, Minneapolis, Duluth, Milwaukee, Kansas City, St. Louis, and Toledo, together with a statement of the amount of taxes as collected on such sales in each of the above-mentioned markets during the years of 1914 to 1920, inclusive; and, further, that the Federal Trade Commission be requested to furnish for similar inclusion in the printed report of these hearings all data in its possession similarly showing separately the sales of grains for future delivery in each of the above-mentioned markets during the years 1913 to 1917, inclusive.

The requests for data are made because during these hearings, and in the recent report of the Federal Trade Commission on its investigation of the causes of the decline in wheat prices, there has been an implied criticism of members of exchanges for failure to disclose information which they did not have, which they could not under their rules obtain, and much of which is readily available to this committee through the various departments, bureaus, and commissions of

the Government. We have nothing to hide from you, nor did we hide anything from the investigators of the Federal Trade Commission.

A few years ago I supposed that the introduction of a bill in Congress was a serious attempt to secure the enactment of that particular bill into law. I now believe that many such bills represent local discontent and are introduced either on request or in an honest attempt to secure more light on some controversial question.

Such information as we can give you we shall very gladly give you. It is not likely that we can tell you much that is new, except as the war experience has given us additional information. It has enabled us, in some instances, to prove things which heretofore we could assert but which we could not prove.

These hearings, begun something like 30 years ago, first with the Industrial Commission of Congress, give a very complete record of the grain business as at present conducted. You will recall that in the ninety's there was extreme depression, not only in prices but in general business. You will recall how complaint came from the agricultural districts because of those declines. You will remember that prices for corn were less than 20 cents in Chicago; wheat sold under 50 cents. As we look back at that we consider it as simply part of the general economic situation at that time. But at that particular time, so far as the farmer was concerned, it was blamed on the machinery through which prices were determined. We have a recurrence of that situation to-day.

No one knows it all about the grain business. No matter how long we have been in the grain business, every man must be more or less of a specialist. A man may know all about the country end of it, and does not have adequate information and should not be considered a good witness in regard to what is done in the terminal market. The terminal-market man is not the best witness as to what is done in the seaboard export trade.

And so there are specialists in the grain business just as in any other. If you wish us to admit that during the war times the machinery which functions normally in peace has not functioned normally, we will admit it; we will not only admit it, we will assert it, because there has not been any business machinery in this country which has functioned normally during the time of the war.

There have been some rather broad statements made as to what the board of trade is and does. Let me say that it is an organized market place. It is concerned with the raw material as distinguished from the distribution of the manufactured article—from the manufacturer to the retailer. We can not be held accountable for any discrepancies between the manufacturer and the retailer. You may well question us in regard to the handling of the grain from the raw material to the mill; and you may question the miller in regrad to the grain through his mill and the corresponding reflection in price of the flour which he sells.

This market machinery was organized not simply for the producer; and it was not organized for the consumer. It was organized to facilitate business. It serves both classes; it serves all the people; but it was not organized either for producer or consumer. It was organized simply as a business proposition, to facilitate business and

to furnish a service which would attract to the market the grain which was tributary to it.

These markets are conducted under rules which are framed by the membership. We have the initiative and referendum in connection with our rules—the membership itself, not simply the board of directors, may initiate rules. There is no possibility of a control over the rules by any few men; every rule must be voted upon by the association as a whole.

We have a membership part of which is local and part of which is scattered throughout the country. Out of about 1,600 members between 1,100 and 1,200 live in and about Chicago, and the remaining number reside at the seaboard or in other terminal markets or in the country. They are members because of the facilities offered and because members who do a large business can save enough to justify their purchasing a membership.

The board of trade is a commercial organization, organized under the laws of the State of Illinois—not for profit—and does no business itself. It furnishes, as I said, the rules and regulations under which business is conducted.

The business, however, is done by private contract. The records of the contracts that are made are sent out as quotations. They are known as "board of trade quotations"; consequently, a great many people get the idea that the board of trade officially determines prices at which trades shall be made. That is not a fact. The quotations are a record of private contracts in an open market.

Those contracts are enforceable in law, and once made can not be disturbed during normal times by the board of directors or any officer of the association. There is no public record of these private transactions other than the price at which they are made. That applies to both the cash grain received on the market and the trading for future delivery.

The prices at which the trades are made become a matter of official record. The records of the trades themselves are the private property of the individual members who make the trades, who enter into these contracts. The board of directors has no right whatever to inquire from any member for his record except in case there is complaint against a member. Then our rules require that every member must submit his books to an examining committee, in order that they may determine the facts in cases of particular transactions, or suffer discipline under our rules, which is suspension until such time as he is willing to show his books.

This market, like most others, grew from a wagon-load market to a car-lot market. The first future trading was in grain to arrive. We distinguish now somewhat, in common usage, between "to-arrive" and grain for "future delivery," that grain for "future delivery" being grain to be delivered in warehouses in the city of Chicago or on car lots, or in other ways specified by the rules.

The origin of these contracts for "future delivery" was a desire to divide the risk on Government contracts during the Civil War. The business men in Chicago were taking large contracts from the Government. The Government wished to deal with one man. So that one man had to make the contract; he did not wish to assume the entire risk of a big Government contract and consequently he

went to numerous other people and tried to get them to take part of the contract. That was the origin of the trade for future delivery as we now know it, and that practice is followed out to-day by people who are furnishing forage to the Army and to other departments of the Government and was largely used in that way during the recent war by people who had such contracts.

It has been said by some one—I think it was Congressman Hoch—that no change, no reform is ever made within the trade; it must be forced from without. I wish to state for the record that while it has been occasionally true that the suggestion of some change has come from without, as a general practice every reform that has been made in the trade, every improvement that has been made in the facilities has been worked out by the members of the exchanges themselves.

I can understand very well the restlessness of to-day on the part of the man who raises the grain, because we find the same thing in our own membership whenever business is dull, and there are during such periods frequent attempts on the part of members to legislate prosperity to themselves. Rules are suggested—many ideas are suggested as to how a portion of the membership may legislate prosperity to itself. So that I understand somewhat the feeling that there should be legislation in these times, because of the decline in price, which decline is part of a general situation, but which causes loss, hardship, and unrest among the producing element as well as among other portions of the community.

Futures—and in saying "futures" I want to refer to trading in grain for "future delivery"—includes two sorts of trading. There is no physical differentiation between the "hedge" and the speculative trades; they are both in the same form. You can not tell by the form of the order whether it is a hedge or whether it is a speculation. There is not anything about it to differentiate one from the other. A "hedge" is the making of a contract for "future delivery" to offset a contract for cash grain made, it may be, a few minutes before or a few hours before or a few days before. But if a dealer has bought cash grain he hedges by selling for future delivery; if he has sold cash grain, he hedges by a purchase for future delivery.

I would like to refer to Volume I of the Federal Trade Report on the grain business, page 208 [reading]:

> Hedging is the term commonly applied by the grain trade to the method employed by many dealers in cash grain of protecting themselves against losses due to market fluctuations by executing with cash purchases and sales practically simultaneously future transactions upon the opposite side of the market.
> * * *
> Country elevators which hedge their grain do so primarily for the purpose of protecting their buying margin—that is, the difference between the prices paid the farmer and those prevailing in the terminal and other markets. If these elevators should sell the actual grain immediately after purchase hedging would be unnecessary, since in such even the risk in market fluctuations between the time of purchase and the time of sale would be comparatively slight.

Hedging eliminates wholly or partly one of the risks of ownership of grain. There are many risks in the handling of grain. The shrewd dealer shifts as many of those risks as possible. He buys fire insurance; in some sections out our way he buys tornado insurance. There is danger from explosion, in addition to the danger of change

in grade of the commodity which he handles through deterioration; and the largest risk of all is the risk of change in value of the commodity while he may own it. Everything is relative; nothing is absolute. It is difficult to get 100 per cent insurance on any risk. The hedge eliminates most of the risk of ownership which may come from a change in prices. That risk is inherent in the commodity itself; it can not be separated from the ownership of the grain. A man who has grain is either speculating on it, must hold it speculatively, or he may hedge and transfer that risk very largely to some one else.

I would like to say that Mr. Bain, of the Canadian Grain Grower, in speaking before the Committee of Seventeen in Chicago, said, as concerning the possibility or advisability of price fixing [reading]:

> So far as Canada is concerned, their wheat price must always be fixed by supply and demand.

Since his organization occupied the unique position of holding a membership on the grain exchanges, Mr. Bain was asked to what extent he favored future trading. He stated that—

> Legitimate selling of grain for future delivery, thereby getting their money for it or insuring against loss or decline in price, is absolutely essential. We could not live 24 hours without selling for future delivery. We buy wheat to-day for delivery two weeks from now and immediately sell the same amount on the board of trade for future delivery.

The financial feature of the hedge is also important, as has been brought out by the bankers, and I am perfectly willing to let their statements stand, simply adding to it this: That the grain trade is composed of men of moderate means. The belief that the grain trade is composed of men of great wealth, who have become wealthy through unfair practices toward the farmer, is absolutely unjustified. Our merchants are sound merchants, carrying on a very large business with moderate capital, because of their ability to eliminate a large part of the risk.

The market for future delivery originated as a hedging market. It was found to be altogether too narrow as trade developed. It was difficult to quickly bring together buyers and sellers of the particular grade of the commodity dealt in, consequently there was need for a ready buyer and a ready seller. You will understand that in hedging a man who sells a hedge must find either a hedging or speculator buyer, and conversely.

The ready buyer is necessary if the hedging buyer is not at hand at the time the hedging seller wishes to trade. There is need for a broad, liquid market in order to facilitate business, to accomplish it quickly. Otherwise trade would be in very small units, on the stagecoach basis, rather than on the basis of modern transportation. Consequently, a class has grown up that we look upon as a speculative class. Originally, you understand, the merchant assumed not only the merchandising function, but the speculating function as well. Gradually those two separated and the merchandiser as a class became simply a merchandiser, and the speculator followed that as a business.

There are still people in the grain business who combine both those characteristics. There are many who handle merchandise in a speculative way. The need for that speculative class is due to the

fact that supplies do not come on the market exactly as needed. The period during which the heavy movement occurs is not a period ordinarily of unusual consumption. The wheat crop in this country for domestic use, aside from seeding, is consumed about one-twelfth each month, but that is not the way the wheat is marketed. Consequently, the need exists for some ready buyer until the consumer needs it.

There has been a great deal of confusion in the use of the terms "speculation" and "gambling." They are not by any means synonomous terms, but they have been confused even by such keen minds as those who wrote the Tincher bill. The brief accompanying the Capper bill, before it was introduced, shows very clearly the confusion in the mind of the writer, or else the synonomous use of those two terms. And I found the same thing a few weeks ago in speaking to the International Farm Congress in Kansas City. There were a number of Kansas farmers there, and there was a good deal of questioning, and all through it there was that confusion between speculation and gambling, and I said to one gentlemen, "Will you define 'speculation' or 'gambling' for me? What do you mean by 'gambling'? Do you think that the farmer who goes out and seeds his crop is gambling?" And he said, "Yes; sure, it is a gamble; the farmer gambles on the weather," and so on.

If you are willing to consider it all in that way, well and good. I consider that a legitimate and necessary speculation. If you are going to talk about gambling in that way, we shall be glad to have it understood in advance. If you are going to discriminate between speculation and gambling, then let us have the definition. Speculation is the assumption of an existing risk; gambling is an assumption of a risk that is self-created. The Supreme Court, in one of the bucket shops cases—and we shall come to that later—in which the board of trade was securing and did secure a property right in its quotations, said that speculation of that sort was "the adjustment of society to the probable," and the making of contracts accordingly.

There is often a question in speculation as to who gets the money. What becomes of what is made or lost in speculation? May I say, that in my experience, it is largely a revolving fund—a revolving insurance fund to cover this risk. One speculator may have a larger share of that revolving fund to-day, then another, and as a general thing that is continued as a revolving fund. For instance those who made a large amount of money during the war period of up-turn in prices, as a general thing, put back into that insurance fund a large part of what they had previously made during the period of decline, and vice versa no doubt. That is not, of course, absolutely true as to the individual, but it is true in a very general way.

The difference between speculation and gambling leads to a discussion of bucket shops, and, there again, there is a great deal of confusion in the public mind. Bucket shops have been put out of business by the courts on action brought by the Chichago Board of Trade and other exchanges. In 1905, after a fight which had lasted over 20 years, the United States Supreme Court gave to the Chicago Board of Trade a property right in its quotations, and no one may now secure those quotations except by a recognition of those property rights. All that is necessary, as the usual thing, is to secure the co-

operation of the local authorities in order to enforce that court decision.

The last large set of bucket shops was in western Pennsylvania and Ohio, with a central office at Pittsburgh, and that was eliminated, I think, in 1916, through the cooperation of the attorney general of the State of Pennsylvania. Bucket shops, if there are now any, are purely sporadic things, and if you can show us a bucket shop we will immediately put it out of business.

Now, why? Because in a bucket shop there is a direct bet between the customer and the operator of the bucket shop. He may pretend to have the facilities for sending orders as was the case in Pennsylvania. He may have a pretended exchange there in which fellows just matched up their orders in order to make their record. That was eliminated by law, it was eliminated through legal action. That has brought a certain number of people to the grain exchange trade. What their intent may be when they individually trade, I do not know. Their intent may be obvious when they were dealing with the bucket shops, yet, as a matter of fact, they were gambling, because they were not assuming any existing risks; they were creating a risk.

On the other hand, a man who assumes a risk which does and must exist is not a gambler but a speculator and performs in the case of the grain trade a useful service.

If any one cares to look it up, he will find a discussion of that in "speculation on the Chicago board" on page 89 and the following pages, of a book written by James E. Boyle, who was one of the investigators for the Bureau of Markets in the recent joint investigation for the Bureau of Markets and the Federal Trade Commission. He was a man brought up in Kansas. He was a professor in the North Dakota University at the time he undertook this work. He is now a professor in Cornell University, and I should be glad to give a copy of this book to any Member of Congress who will promise to read it. It is well worth while.

I would also refer in this connection to the Board of Trade rules, rule 4, section 8, in regard to any one who deals with or for a bucket shop.

These markets are dependent upon adequate transportation more than upon anything else. You can not conduct satisfactorily an open market without free adequate transportation. That fact is responsible for many of the troubles that arose with us during the period of the war when transportation was preferential as between grains. It was used on Government order rather than on the necessities of the individual trade. Due to changes in this transportation that is sometimes adequate and sometimes inadequate, the terminal supplies sometimes become very inadequate. Prices are determined at a particular place by the supply and demand at that particular place. The situation at that point is not relieved by the fact that the farmer himself may have hundreds of millions of bushels, if he can not reach the market under those abnormal conditions. Then, the price at the market simply represents the scarcity at that point as compared with the demand for it; for instance, the Corn Products Refining Co. at a time when there was a great demand for glucose as a substitute for sugar, and for corn oil as a substitute for lard, was wanting to grind all the time at a maximum capacity. You see readily how that

situation, which was a purely legitimate demand, might be disturbing in the situation at times, because of the prices that they would pay at the particular time rather than close down their plant. I just mention that briefly; I might go into it in some detail.

What are the services in general which these markets perform? In the first place, they furnish a constant market. The Chicago Board of Trade, since it was first established, has never closed, in peace or war or panic or prosperity, except due to the radical market action during the early days after we had declared war, and later due to the requests of the Federal authorities in this country that had in charge the handling of foodstuffs.

And right there I might say this: There was no national scandal in the handling of grain during the war. I think it is about the really only large undertaking which has not had something of a large scandal connected with it. The grain division of the Food Administration was handled entirely by grain men themselves, and yet there was no charge of profiteering by the trade. There was no charge—I mean any charge that could be substantiated—of any misuse by these grain men of their positions in the Government service. That speaks well for the character of the general membership of the grain trade. In so far as that membership is found on exchanges, let me say that 1,600 men, wherever you pick them, are much alike. We have represented in our membership about every human characteristic. We have this in our favor, however, that we do not admit to membership any man of known uncommercial methods, no dishonest man, no man whom we have reason to believe will not be a credit to the institution; and furthermore, if any man gets in who does violate the principles of trade and the rules of the board, disciplinary action is taken and he is eliminated.

The record of years will prove that, I think, when you come to examine the Federal Trade Report which will result from the investigations of the last three and a half years. Then we shall find it clearly stated that discipline in enforced in the public interest.

The advantage of a constant market may well be thought of in connection with such a market as wool. I was here in June to attend a conference between the governor of the Federal reserve bank—Gov. Harding—and the raisers and users of wool, together with bankers from all over the country. It occurred to me then what a different situation would have resulted if they had had any such open market for wool as we conduct for grain. I immediately got in communication with the Bureau of Markets to see if the grades of wool had been standardized so that it would be satisfactory to trade in such contract for future delivery. The speculator will carry even wool at a price. He will anticipate the ultimate betterment of that condition which may be temporarily bad or may be permanently bad. So I tried to find out whether the grades of wool had been standardized and I found that they had not been sufficiently standardized to undertake it. I thought possibly we might organize something in the way of the wool exchange, and I believe that that will be one of the evolutions of business practices following this war. I believe that other products will be handled in organized markets under known rules, to the betterment of the condition of the producer and consumer.

In our rules we have provision for the adjustment of business disputes, and you will hardly ever find members of the grain trade engaged in legal action among themselves.

That is simply incidental to the general efficiency of the rules.

Our market is not only constant but open—is open to all on the same terms. Everyone is treated alike under the rules of the exchange.

Farmers are eligible for membership just as well as anybody else, and on the same terms. We have in our membership two farmer elevator concerns, one the Grain Growers' Export Co., a Canadian enterprise——

Mr. TINCHER. You do not want to be interrupted until you have gotten entirely through?

Mr. GATES. No, if you please. The other is a farmers' elevator company in Illinois, at Plainfield, represented on the board through the membership of one of their officers. We have never had an application, so far as I know, from any farmers' organization, or of the officer of any farmers' organization, which has not been passed upon favorably.

The advantage of an open market—that is, one of the advantages—is that if prices are considered too low anyone may come in and buy. If prices are considered too high, anyone may come and sell, through a contract, you will understand, that is enforcible in law, and consequently a continuous service. These open markets facilitate distribution, otherwise you might have—I am assuming now adequate and free transportation—a great scarcity in one section and a great plenty in another section; one would be the section of plenty, not even knowing of the section of scarcity. But under this system that distribution is facilitated. The high price attracts sellers, whether of cash grain or of futures; a low price attracts buyers, whether of cash or of futures.

Last September there were shipped to the city of Chicago something like 13,000,000 bushels of corn, fully 10,000,000 bushels of which went to satisfy contracts for future delivery. That corn was brought out of its natural channels in some cases to satisfy that temporary demand, but the deliveries were made—the deliveries were taken. The farmer was benefited by that higher price. He thinks that he was harmed by the decline later. But the concentrated buying of that amount of grain made the price temporarily higher than natural conditions would warrant. It was not manipulation. It appeared like manipulation. But the demand was satisfied and the grain was merchandised.

Inadequate transportation, as I have already explained, upsets the machinery to a large extent. We can not expect to stabilize conditions absolutely. Conditions must be stabilized in order to have stabilized markets, and that is almost a human impossibility so far as absolute stabilization is concerned.

The facilities furnished by this open market aid the financing not only of the country dealer, through loans by dealers in the terminals and from local banks, but through the ready use of bills of lading as collateral. One firm of which I know has at times had as high as $2,000,000 loaned on bills of lading, on car lots of grain coming from the country to the Chicago market. The advantage of

that, of course, to the country dealer is that he may readily deposit his bill of lading with his draft and use the money to buy some more grain. In other words, it aids the man of small capital. Otherwise, the man of larger capital would be the only man who might engage in it in any such volume.

In the cities the situation is somewhat different. The loans are sometimes made on corporation paper, indorsed with the guaranty that the grain is hedged, or in other cases is loaned on the warehouse receipts themselves. And, as the usual thing, the banker does not ask me whether the grain on which I borrow money is hedged in the market or not. But he will loan me 90 per cent of its value. Why? Because they know that if the value of that grain declines and I do not furnish additional collateral, they may themselves, if I have not already done it, go into the market and protect themselves by sales for future delivery, or by a sale as cash grain in the elevator. Those warehouse receipts, so far as our market is concerned, are of two kinds: One, the public-warehouse receipts, which are certified by the State grain-inspection department, which now, I think, is a section of the public utilities commission of the State of Illinois. They are officially stamped; the official certificate that the grain is actually in the warehouse. Several times each year representatives of the banks and the board of trade go to the elevators and make an estimate of the grain in each bin, and determine whether the grain is physically there, and the variation is the smallest part of a per cent in most cases.

The other kind is what we call "custodian receipts." There was a time when grain coming to a merchant in Chicago and sold to an elevator man operating a private house might come into that house and go out of the house without being paid for. Custodian receipts were devised for the protection of our own merchants, who would otherwise have to pass the loss back to the country unless they were willing to take it themselves, which was the case in one or two failures that I recall. The country dealer lost nothing. The city dealer took the loss, because of the failure of the man to whom he, as agent for the countryman had sold the grain; and that brought about a reform in that method, and the custodian department was established to protect the collateral value of that grain.

One of the greatest functions of the board, through its members, is that of collecting and distributing valuable market information. That which the board collects officially is largely statistical. Such information as the members send out under the regulations of our board of directors must be vouched for. Any man who may be quoted by a member as a crop expert must be a man registered by the board of directors, or, in other words, licensed by the exchange as a crop reporter, and everyone sending out such information must have at hand definite authority for the statements that he makes. During the war the offering of any advice was discouraged; not only discouraged, but, I think, prohibited. You might give advice if a man asked you; otherwise, not. You could not volunteer any advice in regard to the market.

It might be mentioned right here that the giving of market advice without very careful study of the situation is a dangerous think on the part of anyone. There are throughout the country a great many men who have been well trained to tell you how to breed cattle, just

how to seed a particular kind of oats that is best suited to particular soils, or who will tell you how you may best prune your apple trees. He has never been trained in marketing methods. But the farmer during the last year has taken a particular interest in marketing, and those men, with the best of intentions, with good education as far as most matters are concerned, but not trained in marketing, have attempted oftentimes to give advice, which has consequently led to a great deal of trouble not only in grain but in wool and other farm commodities

I am not blaming them; I am simply explaining the situation. They undoubtedly have felt that they must satisfy the men who came to them. I have no doubt that in some cases they felt they would not be so well thought of if they did not assume to know what they had not sufficient training to know.

In Volume II of the Federal Trade Report, on the grain business, there is a recognition of the value of the information distributed. In the old days, before there were such facilities for handling business, farmers, generally speaking, were ignorant of current market values. Undoubtedly under such conditions, advantage was taken by people who had more accurate and more speedy information. I do not believe that that can be avoided in any line of business. The man with the best information, of course, will profit by that superior knowledge, by that information which is more readily available to him.

This system distributes the risk of ownership; otherwise the dealer would have to deal speculatively. If he dealt in a speculative way, he would either have to suffer loss himself or pass along the cost of assuming that risk as a part of the cost of the goods; that is, grain would have to be merchandised the same as any other merchandise, with a large margin for each man handling, more so, than in general merchandise, because of the character of the commodity and the fact that 75 or 80 per cent, I think, of the total wheat grown in the course of the year is harvested within a period of three months in the northern hemisphere.

I want to show you, as an interesting thing, a Lloyd policy. [Exhibiting document to the committee.] There is a risk of £20,000. It is divided, through Lloyd's policy, among 384 different individuals. That is distribution of risk; all insurance is distribution of risk. Even a small part of this risk is subdivided among people in a group. Here will be a man, for instance, who is willing to take one thirty-ninth of a total risk of £400; another man takes two thirty-ninths; another four thirty-ninths of that particular part of the whole risk.

I shall be glad to have you look at that a little. It is well worth study, because that is, in general, the way the risk is divided in connection with the grain business. A man buys over night at his elevator, we will say, 150,000 bushels, which he hedges for future delivery. There is not some one man, as a usual thing, who takes the risk of that whole 150,000 bushels. There may be a half dozen men who will take a risk of 5,000 bushels, a few more 10,000 bushels, a few more 25,000, or maybe some one 50,000 bushels. The risk is distributed.

Now, economically, it is the wise thing to have that risk distributed as widely as possible. It is the economic theory on which all insur

ance is based, and people now do use insurance more than ever before in general business. They even now take out life insurance to cover even the inheritance taxes which the Government has imposed, in addition to all insurance which they previously carried.

Insurance, then, is generally recognized as sound. If you could study this hedging enough so that you might recognize it as insurance, which it is, much of your feeling of prejudice against it would disappear. I speak with due regard to the committee, Mr. Chairman, because I assume that there is some prejudice; there usually is in regard to something which appears to be mysterious, and there is nothing mysterious about this; it is as simple as it can be, though it looks complicated. It is a delicate machine having a good many parts; but, when analyzed, it is simply a distribution of risk through insurance.

This open constant market stabilizes values. As I said before, there is nothing that is absolute; everything is relative. To stabilize values completely, you would have to completely stabilize conditions.

Dr. Boyle, in his work, has very properly compared the fluctuations in wheat one with another, over a period of 100 years, of which I think about 60 were years in which there were no future trades; and about 40 were years in which there was future trading. That investigation showed that the fluctuations were twice as great when there was no future trading as during the period when there was future trading. I would like to have inserted, if I may, in the record, Mr. Chairman, that table.

The CHAIRMAN. Without objection it will be so ordered.

(The table referred to and submitted by Mr. Gates is here printed in full, as follows:)

WHEAT PRICE FLUCTUATIONS BEFORE AND AFTER GRAIN EXCHANGES WERE ESTABLISHED FOR 100-YEAR PERIOD.

The following table, showing the price of wheat per bushel at Albany, N. Y., on the 1st day of January in each year, from 1793 to 1852, has been prepared from tables kept at the office of the Van Rennselaer Manor at Albany (Hunt's Merchants' Magazine, Vol. XXXI, p. 109):

Prices of wheat at Albany before exchanges were established for 60 years, 1793–1852.

1793	$0.75	1813	$2.25	1833	$1.25
1794	1.00	1814	1.87½	1834	1.00
1795	1.87½	1815	1.62½	1835	1.00
1796	2.00	1816	1.75	1836	1.50
1797	1.50	1817	2.25	1837	2.25
1798	1.25	1818	1.87½	1838	1.62½
1799	1.18¾	1819	1.75	1839	1.75
1800	1.56¼	1820	1.00	1840	1.12½
1801	1.81¼	1821	.75	1841	1.00
1802	1.00	1822	1.12½	1842	1.25
1803	1.12½	1823	1.25	1843	1.87½
1804	1.25	1824	1.25	1844	1.00
1805	2.00	1825	1.00	1845	.93¾
1806	1.43¾	1826	.87½	1846	1.18¾
1807	1.37½	1827	1.00	1847	1.12½
1808	1.12½	1828	1.00	1848	1.31¼
1809	1.00	1829	1.75	1849	1.18¾
1810	1.56¼	1830	1.00	1850	1.18¾
1811	1.75	1831	1.25	1851	1.12½
1812	1.87½	1832	1.25	1852	1.00

Price ranges, 20 years:

1793–1812, $0.75 to $2	$1.25
1813–1832, $0.75 to $2.25	1.50
1833–1852, $0.93¾ to $2.25	1.31¼

The following table, showing the price of No. 2 wheat, Chicago, on the first business day of the year, from 1874 to 1913, has been prepared from the annual reports of the Chicago Board of Trade:

Prices of wheat, Chicago Board of Trade, after grain exchanges were established, 40 years, 1874–1913.

1874	$1.17¼	1888	$0.77⅝	1902	$0.78¼
1875	.90½	1889	.99⅜	1903	.71½
1876	.95¾	1890	.77¾	1904	.82
1877	1.24¾	1891	.88¼	1905	1.15½
1878	1.07⅞	1892	.88½	1906	.85
1879	.82½	1893	.72⅛	1907	.71
1880	1.32¾	1894	.59¾	1908	.91¼
1881	.98⅜	1895	.53⅛	1909	1.03¼
1882	1.27	1896	.57	1910	1.21½
1883	.93⅝	1897	.81	1911	.92¼
1884	.94½	1898	.90½	1912	.93⅜
1885	.78¾	1899	.67¼	1913	1.07½
1886	.84⅛	1900	.66¼		
1887	.79½	1901	.73¾		

Price ranges, 20 years:

1874–1893, $0.72⅛ to $1.32¾	$0.60⅝
1894–1913, $0.53⅛ to $1.21½	0.68⅜

From the above table it is evident that price fluctuations in wheat were twice as large in amount, before future trading was used, as they were after future trading was used.

Mr. GATES. There is also another table which I would like to present, showing the differences in regard to the different grains, some of which are traded for future delivery and some of which are not. Cash-price fluctuations by per cents for 18 years of wheat, barley, and oats on the Chicago board showed the widest fluctuations in barley, which was not until very recently traded in for future delivery. The extreme price ranges for each year are taken as the basis of these figures. I would like to insert that also.

The CHAIRMAN. Without objection, it will be so ordered.

(The table last referred to and submitted by Mr. Gates is here printed in full, as follows:)

Cash-price fluctuations by per cents for 18 years.

Year.	Wheat.	Barley.	Oats.	Year.	Wheat.	Barley.	Oats.
	Per cent.	*Per cent.*	*Per cent.*		*Per cent.*	*Per cent.*	*Per cent.*
1899	24.2	57.1	46.7	1908	31.4	130.4	31.5
1900	42.6	97.6	25.0	1909	61.2	91.9	72.3
1901	26.6	73.2	107.5	1910	44.7	114.3	64.7
1902	41.0	93.3	103.4	1911	40.5	152.6	65.8
1903	32.5	72.2	44.0	1912	43.5	233.3	93.4
1904	50.3	103.3	62.9	1913	43.1	102.4	37.1
1905	59.2	57.1	38.0	1914	70.1	79.5	32.6
1906	42.9	52.7	48.0	1915	70.4	87.5	68.2
1907	71.8	175.0	68.6	1916	207.3	120.6	32.5

Mr. GATES. The advantage of the low toll on grain is not generally recognized. The Federal Trade Report, Volume I, pages 192 to 195, discussed that. There is a recognition of it in the brief which I referred to before, which accompanied the Capper bill before it was presented. It was recognized in the investigation by Congressman Hoch's predecessor, Congressman Doolittle, who in 1914 investigated the price of wheat.

You will find that in House Document 1271, Sixty-third Congress, third session. It shows that the entire toll between the producer in Kansas and the export sale at Philadelphia was about 7 per cent—I mean, excepting the cost of transportation. All other charges for all handling of it were about 7 per cent, added to the price that the Kansas farmer received. Between the Kansas point and Liverpool the toll was about 10 per cent, total, for all people handling it with the exception of transportation charges.

A gentleman who handles, through the elevators under his control, from 100,000,000 to 125,000,000 bushels of grain a year told me not many days ago that the net return to him from the handling of that amount of grain—that is, to his company—was a net profit of about 10 per cent on the amount invested in the plants and the business.

To these other services may be added the value from the standpoint of the public of the prevention of monopoly. This is another fact that is recognized in the brief that accompanied the Capper bill before it was introduced.

The CHAIRMAN. Speaking of the investments, does that include borrowed capital?

Mr. GATES. I understood not; I understood it was 10 per cent on the stock.

The CHAIRMAN. The actual investment?

Mr. GATES. Yes, sir.

Where there is not an open market there is likely to be a concentration in the trade. You have that in Argentina. The trade of Argentina is handled very largely—almost exclusively, I might say—by four or five large companies. It is my opinion that something similar to that would have happened in this country long ago but for the presence of the exchange. There were attempts made in the old days to monopolize the market for grain, just as the Standard Oil Co. monopolized the oil business, but every attempt of that kind was defeated because the open market was the impediment, and the man who tried to do that was said to have made the remark that he would yet make the grass grow in the pits of the Board of Trade in Chicago.

That was the great obstacle. That will always be the great obstacle to the man who wishes to monopolize. There is an advertised price that is known, that will attract buyer or seller.

Through this system has been worked out a minimization of manipulation. The grain exchanges have recognized in their rules that there are opportunities of manipulation, and the evidences of that are sporadic, unusual, infrequent; but much publicity is given to that, and the man who gets his information about the markets from his paper, in which these things are spread out in large type while

the daily work of the board is given little attention, gets the impression that that is the usual situation, which is far from the truth.

Several steps have been taken by the boards themselves to minimize manipulation, to make it as difficult as possible, and still maintain an open market. The board of directors in May, 1910, adopted a resolution branding as uncommercial and dishonorable conduct the practice of selling out the Chicago grain on other markets at less than the Chicago prices in order to produce a shortage. Delivery at a fair price was determined in June, 1910. The membership adopted a drastic anticorner rule by a vote of 348 to 191, providing that a short in case of a market squeeze could settle at a fair market price plus liquidated damages not over 10 per cent, etc.

The grades deliverable on these contracts in regard to which there is some complaint were made wide. A number of grades were made deliverable in order to make difficult manipulation and in order to protect the man who wished to deliver on a hedge. The market should be generally useful and not useful simply to a man who is handling one particular variety of wheat. The greater the number of grades deliverable the more difficult to manipulate, to monopolize, to influence the market out of its natural course.

Delivery on track of carlots from the country is permitted in the last three days of any business month under the rules. That is a more recent provision; also there is a provision for making additional warehouse space available.

I believe that so long as human nature is what it is we can not entirely eliminate attempts to monopolize or attempts to manipulate. We can not entirely eliminate the incidental evils, such as the misuse of these facilities by incompetent people or by people who may extract funds that do not belong to them in order to trade on the board of trade. Those are incidental evils. We avoid as many of them as possible through our operations; that is, as many as we have been able to work out.

We will continue to do that. It has so far been found far more satisfactory for the trade itself that understands the situation to work out remedies than for people who have not the intimate knowledge of conditions.

Now, the causes of complaint, in so far as I can determine them from having listened to these discussions, are: First, that there has been a big decline in prices in the last eight months, and particularly during the last six months. We have never had, except in a very general way from consumers, any complaint about advances. Prices, as is well known, have during the last few years been abnormally high, but there has been very little complaint until at the time the United States entered the war in 1917, when our markets were in the hands of the foreign buying agencies and cornered, if I may say it, there was an investigation started by Congress. And now before we get through with that investigation and have a report we have an investigation from the other side, both due to abnormal conditions rather than to conditions of peace under which the machinery, we hope, will continue to work for a great many years as it has in the past.

This sudden decline in the price of commodities in this country, particularly of grain, I believe may be a blessing in disguise to the

farmer himself. Why? Europe is particularly interested in her future food supplies. Had these prices been maintained at a high level continuously, new lands with cheap labor would have been opened up immediately as a more or less prominent competitor with our surplus. So long as we are a surplus-producing nation it is of interest to us that that development of new lands in other countries shall be gradual and natural, and not overestimated by a high price level which brings to our farmers more competition than they would otherwise get.

Let me illustrate: Following our Civil War, during which there were exceedingly high prices for that time, the settlement of the West occurred more rapidly than there was demand to take care of it, and we had a declining scale of prices for 25 years, culminating in the nineties. In the past 25 years we have overcome that to a large extent and consumption has overtaken production to such an extent that we have had a gradual trend of prices upward for nearly 25 years.

Now, to prevent a 25-year decline the farmer may well sustain—I mean from his own standpoint as a business man—a loss this year as compared with what he considers a fair price. I do not believe that is the way the decline has come so rapidly. I believe that it came because of the effect of the general propaganda against buying. Whenever we try to help out natural adjustments we are likely to get into trouble. We kept pressing against this wave of buying until we finally got it turned, and when it turned the American people, being to a certain extent a nation of extremists, went all the way in the other direction. You could not get them to buy even normally. Not in the flour business could you get them to buy; bankers discouraged it. Consequently, even though you had a very good export demand for a time, and have had a good demand most of the time—not all the time—you have not had normal buying for domestic use. There has not even been such provision during periods of plenty for future needs as is usual. From that we may have a material reaction, when those needs must be met by people who have the means to meet them.

The machinery is blamed for this decline. If the machinery were at fault you would have a decline in the price of grains handled by this machinery, but you would not have a general decline in other products. As a matter of fact, the decline in silk and wool, and a good deal of it in hides, came before the sharp decline in wheat. The declines in copper, rubber, potatoes, sugar, coffee, and tobacco have all been, I think, larger in per cent than the decline in the price of wheat.

I would like to leave with the committee some Government charts showing these ranges of prices. These I secured from the Bureau of Markets. There is one of the decline in hides. There is a certain kind of hides that are sold at 61 cents, and at the end of their chart they were selling at 13—a loss of over 75 per cent. Potatoes declined from around $10 per hundred last June to $1.50.

(On file with the Committee and also with the Bureau of Markets, Department of Agriculture.)

The figures prepared by Mr. Russell, who was the statistician for the Grain Corporation during the war, are of exceeding interest. He has taken the farm prices of wheat marketed in 1920 and 1919.

The farm price in July, 1920, was $2.42; August, $2.254; September, $2.165; October, $2.016; November, $1.662; the average being $2.176, with an amount sold of 447,000,000 bushels.

The average for the same time last year, under Government control, was $2.126 and the amount sold was 607,000,000 bushels. The farmer has done 5 cents a bushel on the average better this year, including the declines of July to November, inclusive, than he did last year under a Government guaranteed price.

At the time the Federal Trade Commission was investigating the causes for the decline in wheat I asked a gentleman in the office of the secretary of the board to prepare a statement as to what the prices had been during the last four years. The price on No. 2 hard wheat in 1917, after the Government took hold, was, you will remember, a fixed price. There was just one price for the first crop year.

In 1918 during the entire period from July 15 to October 15, No. 2 hard wheat sold at, or only a cent or so above, the minimum price determined by the Government, the minimum guaranteed price, for all the wheat that moved from July 15 to October 15. There was a similar situation in 1919, while in 1920 with no Government guarantee there was, with the exception of the first business day of August, no sale whatever as low as the old guaranteed price, until October, when the Canadian crop began to be offered in our market at less than American wheat.

Those sales of Canadian wheat began earlier than that, but before the situation was generally recognized the price had been maintained under the inadequately working open market at a price higher than during the entire period of Government control—that is, during the period (July 15 to October 15) of heaviest movement.

I have copies of that tabulation, which I can give to any member of the committee.

The farmer complains because he has suffered a decline in price below the cost of production, whereas the economist will tell him that he can not always insure to himself the cost of production. The consumption for which the production occurs is the thing that must determine the price. It is consumption, and not only the need but the ability of the buyer that determines it. Europe needs all our wheat, but she has trouble to finance her absolute needs, and her inability to buy as much as she needs is a large market factor.

The Country Gentleman of last week has in it a very interesting article on the wheat business by Philip S. Rose, and on pages 40 and 41, if you are interested, you will find a very good discussion of world competition as the basis of price.

You will also find in the Agricultural Review, a paper published as the official organ, as I understand it, of the International Farm Bureau, a discussion of the subject in an article of December 20 issue.

Mr. Powell, of Californiaa, an officer of one of the fruit-marketing corporations, in testifying before the committee of seventeen in Chicago, said:

"Cost of production influences the permanent policy of an industry but does not determine the immediate price. The price day after day is fixed, and must be fixed, by what the consumer is willing to pay and can be fixed by nothing else. There is a very interesting situation with lemons at the present time. For months we have been selling lemons below the cost of production. This is due to the cool summer, which lessened the demand for lemons, and also the heavy imports of Italian lemons, which, on account of the rate of exchange, can sell below Cali-

fornia lemons. This, naturally, can not continue indefinitely, but must be met occasionally.

"We would not attempt to set a price if we could," said Mr. Powell, "it would not do us any good. If the price were more than the consumer would pay we would hold the lemons this year and could not compel him to buy them."

The causes of the decline are given in various ways.

Mr. Hoover, speaking out in Kansas to representatives of the farmers and to a great many farmers personally, has emphasized the European financial situation and the inability of the buyer to take care of himself. Mr. Barnes has laid some emphasis on the injection of the foreign governmental buying agencies into the situation. The American Farm Bureau, through their committee on economics, of which Mr. Henry Wallace is one of the members, said, as reported in Wallace's Farmer—in speaking about a resolution they passed advocating that courses in economics be given in certain western colleges in order to prepare people to serve on commissions from the farmers' standpoint—that they believed that the cause of the recent decline in all sorts of farm products had been largely due to the activities of the Federal reserve banks.

The Federal Trade Commission has given seven causes, in none of which is future trading even mentioned as a cause.

My own belief is that renewed transportation has been a material factor—that renewal of ready facilities for getting grain to market. It is well known that the carry-over of all grains except oats was very large—I mean the wheat and corn—due partly to indifference on the part of the producer, but more largely due to lack of transportation facilities. A part of the trouble at the present time is that the grain that now moves moves at higher freight rates. The injection of anything into the difference between the price the consumer is willing to pay and the producer is taken off the producer. That can not be avoided, because he must meet competition in a broad world market.

The farmer, I think, is just beginning to appreciate the fact that on corn, for instance, the present rate is 196 per cent of the prewar rate from Iowa stations to Chicago. Consequently the price in Chicago, which previously was attractive to him, is reflected back to him in a very much lower price than was true before the war, before this increase in freight rates.

Mr. WILSON. You mean it has increased 196 per cent?

Mr. GATES. No, sir; I mean the present rate is 196 per cent of the old rate. The increase would be 96 per cent, figuring it on a 100 per cent basis.

That is due, may I add, to the fact that previous to 1918, when Mr. McAdoo, then Director of the United States Railway Administration, put in the new rates there was a coarse-grain rate on corn and oats from Iowa to Chicago. It was thought by the people in Iowa that their increase was going to be 25 per cent in freight rates. As a matter of fact, they made one grain rate, which was an increase of 25 per cent over the wheat rate. There was formerly a difference of from 15 to 20 per cent between the coarse-grain rate and the wheat rate. The increase was added to the old wheat rate, which made an increase for those stations that I figured—and I was at that time visiting a number of elevators in the State of Iowa—it made their increase on corn and oats from 40 to 50 per cent at that time, when theoretically it was only a 25 per cent increase.

There is a desire for direct marketing. May I point out that there is more direct marketing than ever, in the ordinary processes of evolution of the trade. And that is one of the things that we have to encounter in our marketing. Formerly Chicago handled much of the Western grain, both in cash and in futures. The tendency to direct marketing has brought about a situation where outside markets, smaller markets but more direct, have to a certain extent taken the place of the Chicago market in the handling of the commodity itself, while the hedge is still carried in Chicago. That will continue to be the problem, I believe, in the more direct marketing from the country point to the eastern buyer. The tendency of the whole system, in other words, has been toward decentralizing rather than toward centralized monopoly, and there is less of that grain actually moving to the point where it is hedged than formerly.

There is a desire to eliminate short selling. I wish that anyone interested in that short selling matter would take the trouble to read Herbert Knox Smith's report on cotton exchanges, volume 4. There is an exceedingly interesting discussion that starts on page 24.

There is a desire to figure on a shorter term contract. That is apparently on the theory that a long-term contract makes it more easily subject to abnormal influences. I was quite interested in the attitude of a member of the Kansas State Board of Agriculture, half a dozen members of which board conferred with us in Chicago at about the time of the stock show this year. They met us at their request to talk over the grain-marketing system, and one of the members of the board suggested that we should not only trade as far ahead as we do now, but we ought to trade far enough ahead so that the farmer might use the market at the time he seeded his crop. So you see, there are differences of opinion which have to be harmonized to a certain extent in determining what shall be done by the terminal market.

We had, too, a previous experience with the short-time contract in time of peace. I understand there was a 60-day contract adopted. It was done away with, because the people in Iowa who cribbed corn protested that it did not give them long enough in which to get the corn to market.

There seems to be a wish to eliminate the speculator, on the theory that the speculator causes fluctuations. May I say, as I said before, that the risk of ownership of grain is inherent in the product, would always be there, and will always be there no matter how that risk is carried. There will always be a changing price—that is, except under some artificial condition, as Government-fixed price—because of changing conditions, and to eliminate the necessity for speculation in such a commodity you must eliminate the conditions which compel speculation.

Now, if the elimination of speculation would eliminate radical market changes we might have some right to that theory, but we had an experience during the war. In the fall of 1917, I think it was, a limit was placed by the board, under a special war authority, on the value of a contract in corn for December delivery and for May delivery. What was the result? The limit was $1.28. Consequently, the future trading could go no higher than $1.28. Do I make that clear?

We limited the value of that contract to $1.28. Consequently, there

could be no advance in the price of corn for future above $1.28. And cash corn during that period when those limits were on sold as high as $2 and no lower than $1.60. The putting on of the limit did not have anything to do with the fluctuations in the cash commodity, but it made the future market practically worthless as a hedge to the buyer.

You will find evidence of a poor working of the machinery in the Federal Trade Commission report, volume 1, page 20, in which they say:

> The abolition of trading in wheat futures so disturbed the normal operation of the grain-trade mechanism that any statistics secured during the war period would have been practically worthless for the permanent solution of problems of grain marketing.

I would like to show you some charts of what happened to the markets incident to the war, and if the charts are not too large I hope they may be included in the report [exhibiting chart to the committee].

This is a chart covering the price of wheat, corn, and oats in the markets of Minneapolis, Chicago, St. Louis, Kansas City, and so on. The period previous to the war, beginning with the 1st of January, 1910, and ending with the beginning of the war in July, is shown right here. I wish you to note the relative steadiness of the markets previous to that time—not absolutely stabilized, but relatively steady.

Now, let us see what happened when the war broke out. The farmer immediately got the result of that so far as wheat was concerned. Wheat advanced very rapidly. Then came the poor crop—or crop of poor quality—which is never a factor in promoting higher prices, and you get this lower level here, but still higher than before the war.

Mr. HULINGS. Would a big crop year mean also a reduction in prices?

Mr. GATES. Yes; it was a large crop. It was the largest crop we have ever raised, and is was of poor quality. Am I not right? That is my remembrance.

The CHAIRMAN. What year have you reference to?

Mr. GATES. 1915. It rained all summer, and much of the grain was injured after it was cut.

The CHAIRMAN. It was of poor quality, and very little of it.

Mr. GATES. No; there was a great deal of it, Mr. Chairman.

In 1916, from June, I want you to notice the effect of a decreased yield of winter wheat and an almost complete annihilation of the spring wheat, through black rust, through this very sharp upward movement. From there on I attribute that very sharp advance to the fact that the British Government injected itself, for itself and for its allies, in competition with the neutrals into our wheat market by the buying of futures.

Now, a speculator buys a future. He is willing to take a small profit or suffer a small loss. A Government enters the market, not as a speculator but with a result which you would usually expect from extreme manipulation. They cornered our market, a thing that is contrary to law, a thing that would not have been tolerated on the part of any individual or any group of individuals in this country, but it was done by the British Government and the Allies in competition with neutral Governments, all of whom desired additional supplies.

This is an exceedingly interesting chart, Mr. Chairman. I procured it from the Bureau of Markets; it is authentic, and I should like very much if it might be included as a part of the report of these hearings.

The CHAIRMAN. Without objection that will be done—that is, if we find it can be done.

(The chart referred to is as follows:)

(On file with the Committee and also with the Bureau of Markets, Department of Agriculture.)

Mr. GATES. I also have here a chart showing the decline in hides, from 61 cents to 13 cents, within a period of a little over a year.

Mr. WILSON. What is the highest point there? What date?

Mr. GATES. That is in late August and early September, 1919.

I wish also to show these wool charts, terminating abruptly in May, and the Bureau of Markets experts told us they found it impossible to chart it any further, and that even yet there was not a market that they could chart; the bottom just dropped out.

(On file with the Committee and also with the Bureau of Markets, Department of Agriculture.)

Now, we come to this volume of trading. A year ago I would have told you, just as these gentlemen have, that they did not know anything about what the volume was. There have been certain occurrences during the past year which give insufficient data but allow us to make in a general way a deduction approximately as to the aggregate amount.

The first was the fact that Prof. Boyle, who had made part of the investigation for the Bureau of Markets, asked permission to secure information from our members in regard to one day's trading. He has compiled his results, to the effect that the total volume of future trading by 1,476 persons on the 25th of August, 1919, was 36,686,000 bushels for corn, oats, and rye. At that time there was no future trading in wheat. On that basis the total volume for the year would be 11,005,800,000 bushels.

Now, comes the Federal Trade Commission and gives us a little information in connection with the investigation of the causes of the decline in wheat. Incidental to the causes that they attribute, in which they do not include any mention of future trading, they tell us something about the figures. They show a total for wheat, corn, and oats for the months of August, September, and October ranging from a billion and a quarter to a billion and a half bushels per month. They also state that that is not very far from the total trade in periods of large trading in more normal times, but that the proportion of the trading which was wheat trading was very much smaller than usual, a larger proportion being corn and oats.

From their statement that wheat usually constitutes about 50 per cent of the total trade for future delivery, we judge from Prof. Boyle's figures that with wheat, corn, and oats all going at the same time the total trade would be somewhere in the neighborhood of 20,000,000,000 bushels of all three grains, of which, in the course of an entire year, one-half would be wheat—10,000,000,000.

That looks like a large amount. It is a large amount. Not all of that amount is traded in Chicago, but a large proportion of it is. But let us, for the sake of argument, agree that it is all traded in Chicago—1,000,000,000 in the course of a year. Now, that is not fourteen times and it is not forty times the amount of wheat that is grown, and it is not traded in fourteen or forty times before the crop is thrashed; it is gradual throughout the year.

Mr. TINCHER. How many times would that be?

Mr. GATES. Ten or twelve times for the entire year, depending on the crop.

Now, let me say this: We have heard of the scalper. In the market the scalper is the man who temporarily assumes a risk until a permanent buyer or seller makes his appearance. The statistics of Prof. Boyle indicate that 52 per cent of all the trading is done by scalpers and speculators who trade for themselves. That temporary buyer or seller of the commodity assumes, then, 5,000,000,000 of the 10,000,000,000. He is neither long nor short, as a general rule, at the end of the day. He does, however, perform a very necessary though minor service, because he steadies the market.

Half of his transactions on the average, if I may go by the experience of people whose trades I have seen—half of the scalper's trades are bought and sold at the same price; that is, he temporarily holds the contract and sells it to another man at the same price in half the cases in which he trades.

Of the other 5,000,000,000 bushels, about 20 per cent as a total, as given by Prof. Boyle—20 per cent of the trading is by people other than members of the exchange; that is, members of the Chicago Board of Trade. Only 20 per cent.

Now, let me say this: I have shown you how, through the Lloyd policy, the risk on the grain that is hedged is distributed with a large number of people. Mr. Moore, I think it was, brought out that even in the moving of grain from the producer to the consumer was handled and hedged as much as six times. Possibly the average would not be as high as that, but the grain is hedged in many instances several times.

Now, the man who assumes the risk of that hedge carries it for a short period or a long period, depending on his own attitude toward that risk. Some men are willing to carry it for a few minutes or a few hours—the scalper. Other men are willing to assume that risk for days or weeks or months.

Now, as that risk is passed to the next man, if it is legitimate for this man to hedge it is legitimate for the other man to carry his hedge; that is, to assume that risk. He carries to the man next to him, if he is no longer willing to carry that risk, the same right that he had, and that makes one more sale on the exchange. It is a sale of the same grain, a sale that is made to dispose of a risk originally assumed on the same body of grain. So that with a cargo of stuff hedged—we will say 200,000 bushels—there may be five or six or a dozen people who carry a part of that risk. One man is willing to assume it for a small profit, but he wants to eliminate the risk for himself if there is a small loss, and so that is carried on.

That is part of the distribution of the risk, and consequently the volume does not mean an immense amount of gambling, as you men

have been led to believe, but it means a distribution of that risk, an insurance of that man in his legitimate operation, a protection for the man who is merchandising the grain, in such a way that he does not have to add so much as the cost of carrying his risk, and is consequently beneficial to both producer and consumer. The largest part of that benefit, however, comes to the producer.

Now, let me say this: Some one has said that these men perform no service, which I object to—that they might better be doing something else. All right. Now, there are some of these so-called scalpers: they are not a very large number of men, but they are very active in their trade. They possess a very keen, intimate knowledge of how to do a particular thing. There are men who are doing that scalping that are paying the Government in taxes each year from $10,000 to $20,000, during this period when we are being taxed, and at the same time do not save enough for themselves so that they have to fill out an income-tax statement. They have large earning ability, but the tax on that is such a handicap that all they can do is to overcome that handicap, and some of them can not do that.

I mention that because I do not believe that you could put those men to work at anything else and have them render the service to the Government that they do in paying a tax of $10,000 or $20,000. Of course, they do not all pay a tax as large as that, you understand.

Now, may I say this in regard to the volume: We have in this country about $4,000,000,000 gold, I think—have we not? The bank clearances are $470,000,000,000 for 1920, or something like that. Were they legitimate transactions? How much currency was there? Well, suppose there was—I do not know the exact figures; maybe some of you do. Suppose it was $40,000,000,000 in currency of various kinds, Federal reserves notes and all. Then the gold is the grain that flows to a market, to Chicago we will say. That is the basis of the whole thing. The currency is the grain that is constantly in transit, in a merchandising way, throughout the country. The clearances are the large volume of contracts that are made in order to facilitate business, to carry that risk.

Now, perhaps I do not make that clear. I think we have something like $25,000,000,000 in Liberty and Victory bonds.

The CHAIRMAN. Sixteen billion.

Mr. GATES. Is that all? Sixteen billion, all payable in gold, are they not?

The CHAIRMAN. Yes.

Mr. GATES. How many securities of other kinds that are payable in gold do you suppose there are out? For instance, I have a mortgage on my house. It is payable in gold. I don't ever expect to pay it in gold; I don't expect to have to. They can force me to do so at the conclusion of that contract or suffer the damage. That is a legally enforceable contract, but it does not mean that I must pay the gold on that contract, and such notes are not usually settled by the payment of gold.

I wonder if you get the general illustration of that? The fact that physical delivery of the grain is not made on those contracts is not an evidence of their being illegal or wrong or that they do not perform a public function. It is evidence that there is an opportunity to distribute grain along the lines of least resistance through

the use of this insurance system without the necessity of delivering on the contract the particular grain that was hedged.

Now, do not get away from the distinction between the delivery of the exact grain that was hedged and the delivery of the grain on those contracts. Those are contracts for future delivery of grain, and it does not take very large deliveries, physically, to settle all those contracts. For instance, we have a kind of clearing-house system that takes care of that. We have a clearing-house system that is very little more than a post office for the members. All their memoranda of contracts go through that office. In that clearing house the sheets are from day to day put in, covering such contracts as the members adjust among themselves. The board of trade has not anything to do with it, and any member who has a contract may hold it open, refuse to adjust it, and accept the delivery of the grain at the termination of the contract.

That would require the holding open of a large number of contracts. The Supreme Court in its decision has held that the offset is legal delivery, that there is no reason why we should hold a contract open that might be settled by offset, and physically deliver the evidence of the title to the property on the contract.

But, as a matter of fact, while you may have bought and sold a contract of like kind for future delivery—say May wheat—your commission merchant has both sides of that open on his books, and he may not be able to get that adjusted by any offset. He may receive and deliver on that contract next May—without your knowledge, to be sure, but in the ordinary processes of trade. In other words, the commission house itself must have, or almost always does have a very much larger body of contracts than those that are not long or short on their books, through our system.

Now, I will tell you why that is true in our market. The necessity of protecting those open contracts is one of the greatest points of safety to the trade. Otherwise there might be unlimited trading by people who would close their trades during the course of the day and simply go and get their money for the balance between the value of the grain bought and the value of the grain sold. Under this system they must consider those contracts as contracts subject to protection through our calling on the merchants among the houses to deposit in the banks the funds to protect those contracts.

Consequently, what happened when the war opened? The last of July and early in August, 1914, there were about 40 or 50 such concerns that had temporarily to stop. A good many of these men wanted to go in and trade heavily. The opportunity was there, but they were prevented because they could not trade on a basis of adjustment at the end of the day of the cash balance between the value bought and the value sold; they had to consider them as contracts and protect them. That meant that they must have some more or less large means behind them. Consequently, there is protection for those who do business through the market, through the necessity of having a lot of traders and merchants who have behind them substantial ability to protect and meet their contracts.

A good deal of the manipulation that is talked about is not, as a matter of fact, manipulation. Oftentimes the buying of a miller, like Mr. Crosby and other millers who fill a legitimate demand at

a particular time—because, as he explained to you, it comes spasmodically—the buying of those men appears to be temporarily manipulation, and the investor, or sometimes a newspaper reporter, gets the notion that that is manipulation, which it is not. It appears to be, but most of the so-called manipulation is, I think, not manipulation at all. That is, if the buying and selling are not in line with the general conditions, the effect is absolutely temporary. There is no possibility—at least we have so felt—of manipulating for any length of time except on the long side. We have, consequently, in our rules recognized the danger of manipulation on the long side, the cornering of the market, and have taken every means to protect ourselves against that.

We have not taken similar steps on the short side, and I myself am still unconvinced that it is possible to manipulate more than in a very narrow and temporary way, the downward tendency of the market, because a man has made a contract to sell. The manipulator is a man who becomes immediately the enemy of the rest of the membership. He is the wolf in the herd of cattle that is trampled to death by the cattle. There is not a man that tries to manipulate but immediately incurs the opposition of every other man in the trade. Why? Because he is trying to disturb conditions, whereas every man has the right to have his judgment work along something like normal lines. If there enters in a factor which is intentionally disturbing, everyone immediately, without any conspiracy, but by instinct almost, or natural tendency, is against the manipulator. And that is the reason why nine times out of ten, or ninety-nine times out of a hundred, a man in attempting to manipulate suffers terrible loss. As we sometimes say, he makes on his futures and loses in burying the corpse—if you know what that means. That is, in merchandising the grain that results.

Now, in any such transaction, if the grain is raised in value, the farmer supplies the demand through the dealer. As has been stated here, grain was brought over the ice, grain was sent by express at times, and so on, because of the desire to eliminate the manipulator. The board of trade itself, through its members, desires to do that thing, and does it if left to itself.

Now, let us see what situation we had this fall. Suppose, for the sake of argument—I do not admit it as a fact, but suppose there had been an attempted manipulation on the bear side. What sort of situation did we have which would have helped that? We had this propaganda against all buying. We tried—I do not mean the board of trade; I mean that there was a general propaganda throughout the country to stop buying, to return to a lower level of prices, and finally it got into people in general, so that there was an almost entire absence of buyers for any commodity. That reflected itself in the situation this fall, at a time when supplies were pressing on the market from the producer.

Now, what are we going to do about this? Well, let us abolish the board of trade. I am not of those who say that we can not get along without it. The grain trade will land on its feet. They are the best lot of men to adjust themselves to a new situation that you come in contact with, because they are meeting changing conditions every day. Let us get rid of the board of trade; let us have conditions similar to those that they have in other countries.

We would be foolish if we did that, because we have the experience of Germany in that matter, and you have in your Government documents sufficient evidence of that. I shall not read this; I shall simply refer you to the documents: United States Consular Reports, volume 52, No. 194, November 9, 1896. That describes the German law against speculation. United States Consular Reports, volume 62, No. 235, of April, 1900, in regard to the working of the German law on exchange speculation. United States Consular Reports, volume 64, No. 243, of December, 1900, in regard to the working of the German law against speculation in grain.

This statement is made by Consul General Frank H. Mason:

On the whole, the Government is thoroughly convinced of the unjustified injury which legitimate commerce has suffered through the prohibition of dealing in grain futures. It knows quite as well as the agrarians that this prohibition has secured for cereals grown in the interior of Germany no better market and no higher prices—

And he says that in view of the present unrest it was thought not wise to do it, but to repeal it, and it was repealed in 1900 and trading was permitted.

Now, let us see what Germany does in her present dire distress. Here is a Berlin cable to the Philadelphia Ledger, which is published in the market bulletin of December 21:

The council of the Empire have approved a bill for the legalization of dealing in futures on the foreign exchange market by which it is hoped to check the wide fluctuations in German exchange and permit German manufacturers and merchants to deal in the world market with some assurance as to what they will receive for their wares. The risk will be transferred to professionals dealing on the exchange market.

We have been meeting for 25 years and more in the markets of the world the surpluses of Russia and Argentine. Do you know what the situation is among the peasants in Russia? Do you know how much the toll is for each man that handles it over there? There was a gentleman told me a few days ago that a Russian grain dealer came to him with letters such that they gave him access to the books of his corporation. He studied the method of handling grain in this country, and he found that the greatest profit on that large line company's books was from 2½ to 3 cents per bushel. That is gross. He figured it out in rubles, and he said, "Why, we get each one of us about 25 cents a bushel, each one of us who handles it in the chain."

Now, the crops meet in the same world market, and there is more taken off in the method of handling between producer and consumer in the case of the Russian peasant than in the case of the American farmer.

We can get along without the present organized system if we are willing to pay the price. Are we willing to pay the price of putting our American farmer on the same basis of living with the Russian peasant? Are we willing to put him on the same basis as the farmer in Argentine? And anyone who has traveled in that country can tell you that the farmers generally are exceedingly poor and get poor compensation for their year's work.

I believe that we can make this change. I believe we can make this adjustment if we do away with the exchanges, but I do not believe that the American people can afford to pay the price. The farmer is too important a class to be considered in that way, and

I do not believe that this committee would for a minute listen to that.

If these markets were to be done away with in this country, they would be established in other countries. Canada has a very large market. There would be provision there for hedging facilities, and that business would go out of the hands of our merchants into the hands of Canadian merchants. Or if there were no such thing established, then we should drift toward monopoly, because the speculative risks of ownership, which could not be passed over to some one else, could not be shifted, would have to be borne by people of large means or in very small units by people of small means. It would give the very rich man an unfair advantage over the man of very moderate means; and it is one of the prides of the present system that it permits a man of moderate means, through the use of this machinery, to handle grain in large volume with comparative safety.

If we stop short selling, we have the same general ultimate effect: otherwise we are running our cart on two wheels. If you were to stop the seller who did not want to make delivery himself of the particular physical property, the speculative short seller, who we will say acts on behalf of the consumer, then we must prevent buying by anyone unless he actually wants to use that wheat in his business or eat it. We can not operate an open market on the basis of a real estate boom. It would be fine for a while, but you would have terrible fluctuation. Suppose there comes along a crop scare which brings a great many buyers into the market, with no one to sell except those who have previously purchased. It is fine so long as there are new buyers to relieve you of what you have, but just the minute that you get a change in sentiment and some one wants to sell when there is no buyer, then, as in the case of wool, the bottom drops out.

Well, let us make it a hedging market only. We had that kind of market, and it is a very peculiar thing that the very conditions which brought about the introduction of this bill were the conditions which there is a desire to make permanent. We had just that kind of a market in July and August—a very narrow market, almost entirely on the part of the hedgers. I looked over the report of open contracts at the close of business in August, previous to which time, as you will remember, there had been complaints against the board of trade because of the decline, and I found total open interests in December wheat of about 10,000,000 bushels. That is less than one week's supply for this country that was open at this one particular time when I called for the report.

I really exceeded my authority in calling for the report, because the board of directors had voted earlier in the year to police only the current deliveries. That was under the special war rule; they would not think of doing it in peace time, because it is a policing by a man who is a competitor of the rest, and you know very well they would not stand for it. It means that while that policing is going on it is necessary for that man to separate himself from his own business, treat every report as sacredly confidential, and divulge nothing of it so far as its details concern anyone else.

Let me give you another physical evidence of the narrowness of that market. We traded in the oats pit when we first started trading in wheat. The pit was not half full; there are only a few men there.

There were no scalpers; there were no speculators. At the end of August when we looked at the report, so far as we could distinguish at all the suspicion as to the speculation, there were not two dozen speculative accounts on the books on either side, taking all the firms in Chicago. In other words, it was a market almost entirely in the trade itself—a hedging market.

Now, what kind of a market did we have? We had a market which when an order came in, a market order to sell, it had to go down until it found somebody with an order on the other side, and that quotation would no more than be flashed on the wires all over the country than some one would come in with a buying order, possibly for a smaller amount, and the market would come clear back.

That is a most unsatisfactory market to the trade, the most unsatisfactory market to the producer that you could possibly have. It is the kind of a market that to my mind started the agitation for this legislation.

Now, those are not normal conditions. You can not expect to take a tractor out of the shed that had been in there for three years and without doing any work on it have it run right off in the way in which it worked when you put it in the shed three years ago. You can not start a machine to work normally after a long period of disuse. That is true of the wheat market. We had, in addition to that, the unusual situation where during May and June and July the British royal commission had been a very heavy buyer of wheat for export.

Now, some one has spoken about the relative steadiness of the market through June. The figures he gave were not correct. There was very materially more fluctuation than he has quoted, but we will say there was relative steadiness as compared with the sharp break at the end of July. There were every day firm bids from exporters which any dealer could accept. You heard that man from Peoria tell how he accepted bids from Baltimore. Those bids were based back on the British commission bids, and so on through the trade. At that time wheat was selling at the ports of clearance at anywhere from $3 to $3.18 per bushel. I think that will be borne out by these men who are directly in that line. The farmer in Illinois—and I am closer to him—was getting about $2.50 a bushel. He did not know that there was any such price for wheat at the seaboard, and he could not have taken advantage of it if he had.

There was no hedging market. Every fellow that was handling it was taking his great big toll. The farmer was getting less of what the British paid than I ever knew in the export trade. There was a spread of anywhere from 50 to 60 cents between the Illinois situation and the seaboard, and the broker—I have known brokers who had been handling grain on a margin of a quarter of a cent who were getting from 5 to 7 cents a bushel. Why? We did not have any hedging market. We did not have the distribution of information which is incidental to the conduct of a future market. The farmer was in ignorance; everyone was more or less in ignorance. He could not shift his risk, and consequently he took a bigger margin. Also, in my opinion, he took a bigger margin because the other man was ignorant of the condition. And everyone does have that disposition, humanly, to take advantage of the other man. We do not feel that

we want our people to contend against that sort of situation permanently.

Now, suppose we confine speculaion to the trade. In this Tincher bill there is a disposition to confine it to the trade. There is a recognition of the fact that you would have a wheat market that would be altogether too narrow to trade on to be satisfactory if somebody did not trade in grain beyond hedging. Now, their solution is this, to leave that to the trade, to let the trade handle three times as much in the way of future sales and purchases as they handle of grain.

Now, I just submit this to you. What do you think would happen? There are five or six very large concerns that now use the market to hedge. Suppose they each use the market to hedge under this new system, but they speculate. Each one of them, we will say, handles in the regular order of trade 100,000,000 bushels of stuff. That would give each one a speculative right of 200,000,000 bushels. Suppose four or five of these men should get together in a narrow market at any one time when they know that the general buyer has no access to that market because speculation is limited. Do you think there would be the temptation to manipulate? I do. We do not want that sort of situation, and I do not believe the people of any State want that sort of situation.

In Greece a good many years ago prices were high. They found a solution of the thing by hanging the grain dealers, but after they had hanged the grain dealers the market went even higher. People can not interfere with economic laws; they can impede their application at times, but they can not with safety interfere with the operations of economic laws.

I believe that so far as this situation can be bettered it can be done in two ways: First, by the farmer himself, in the way of stabilizing the market in so far as he can by a gradual marketing, not putting all his grain on the market during the short period. That is going to require him and his representatives to work out a storage and financing proposition. He will not then entirely stabilize, because conditions in other countries will be changing; but he will very largely do away with intense speculation, if you want to call it that, by taking away the opportunity for that speculation. People speculate because there is the opportunity to speculate on occasion. The more you can stabilize values and the less range they are likely to travel through, the less incentive there is to manipulation. Anything that affects the stabilization of supplies from the farm or will make the demand more stable will be more helpful.

But you can not entirely stabilize either side. You can not effect an absolutely perfect movement on either side, either on the part of the buyers or on the part of the sellers; and consequently you never can fully stabilize except you have a great governmental monopoly with unlimited resources behind it to determine how far in either direction it should go.

From the exchange standpoint, I believe this, that we have made a great mistake in being so busy with our own business that we have failed to explain to the farmer and his representatives the workings of this machinery. There is nothing mysterious about it, and we should have helped to educate him long before we did as to what were the real functions of the exchange. Well, we are trying and

have been for the last two years to get this work started. I am firm in the belief that it will take a long time to effect that education. Any man is afraid of what seems to be mysterious and a thing that he does not fully know about.

Now, I say that the board of trade and the grain exchanges are ready always for improvements, but they are not ready to have supposed improvements thrust upon them. They will better work out a remedy for the situation themselves, and have done so in so far as they can, than will anybody work it out for them.

I want to read from Wallace's Farmer of December 10. This is a paper edited by Henry Wallace, of Des Moines, Iowa, and what he has to say may be of quite a good deal of interest:

An Adams County (Iowa) subscriber writes:

"If it was a good thing to close the board of trade during the war, I would like to know why it would not be a good thing to kick the whole business into the lake now. It can not be shown in a single instance that it has been helpful to the poor man."

Our friend is mistaken in assuming that the board of trade was closed during the war. Dealing in wheat was discontinued on the board of trade during a part of the war, but it must be remembered that during that period the price of wheat was fixed by the Government.

Wallace's Farmer holds no brief for the board of trade and makes no excuses for the evils which have grown up in connection with it; but we would like to ask those in favor of closing the board of trade just what price-making system they have to substitute for it. If the various boards of trade should be closed, surely we must have some other system of price making. Otherwise the farmer would have no means of forming an intelligent idea of what his corn is worth on the market.

Wallace's Farmer believes it would be possible to work out a better price-making system than we now have in the board of trade, provided, say, two-thirds of the farmers of the country are willing to go into the enterprise under a contract which will be maintained. Until some such plan is worked out, we do not see how we can do away with our present price-making system. If any of our readers have a clearer light on the subject, we would like to hear from them.

That completes the statement that I desired to make. I would like to ask permission to make corrections in the record if I find in reading it that I have made any unintentional mistakes or to amplify somewhat as may be necessary.

The CHAIRMAN. You will have that privilege. Are there any questions?

Mr. WILSON. I have none now.

Mr. PURNELL. None at this time.

Mr. TINCHER. I do not know whether I can remember the different points that I want to ask you about or not, and I presume the different questions I shall ask will appear rather disconnected, but I want to refer back to one of the advantages of the exchange that you mentioned. That was the proposition, that it prevented any litigation; that all the differences were settled. I suppose you have reference to the arbitration called for in your rules?

Mr. GATES. I said, as between members, in the adjustment of disputes between members.

Mr. TINCHER. I did not so understand. I did not understand you to speak of it as being between members, and that is the point I wanted to call attention to. Now, I can trade on the board of trade;

I can have dealings there; but I can not settle my differences by arbitration.

Mr. GATES. Oh, yes, sir; you have the same access to it that anyone has, and the records of the committee on arbitration become a part of the court records in the enforcement of the award.

Mr. TINCHER. Let me see if I understand you. If a man having a membership on your exchange has to settle his differences by arbitration——

Mr. GATES. Oh, no.

Mr. TINCHER. Well, he agrees to settle his differences by arbitration?

Mr. GATES. No, sir.

Mr. TINCHER. Don't you have a court of arbitration within your organization?

Mr. GATES. Not a compulsory court of arbitration, sir.

Mr. TINCHER. Are certain members of your organization elected by the organization or selected in some manner to act as arbiters?

Mr. GATES. They are elected by the membership at large, and any man may be elected to the committee who is nominated by a petition containing 25 names.

Mr. TINCHER. Twenty-five names of whom?

Mr. GATES. Names of members of the association.

Mr. TINCHER. Then I rather think my question was fair. Then the arbiters of your exchange are members of the exchange?

Mr. GATES. Yes, sir.

Mr. TINCHER. Elected by the members of the exchange?

Mr. GATES. If I did not answer you correctly, you will understand I did not understand the question. I thought you said that somebody appointed them.

Mr. TINCHER. Well, they are selected either by election or appointment; I do not know the process. You elect them at your annual meetings, do you?

Mr. GATES. Yes, sir.

Mr. TINCHER. How many do you have?

Mr. GATES. We have 10, 5 of whom are elected each year for a period of 2 years. You will find that in rule 8, page 27.

Mr. TINCHER. Now, if I have a controversy with a member of your exchange can I as an outsider demand arbitration?

Mr. GATES. You can demand it, but it need not be given.

Mr. TINCHER. Now, if I am a member, and I demand arbitration with another member on a controversy in the exchange, what is the result of that?

Mr. GATES. The situation is exactly the same.

Mr. TINCHER. He can say he will not arbitrate, and then I go to court?

Mr. GATES. Yes, sir.

Mr. TINCHER. And he does not agree anywhere in the rules of membership to submit to arbitration?

Mr. GATES. No, sir.

Mr. TINCHER. I believe you stated that the law of supply and demand governs the market?

Mr. GATES. Yes; it does.

Mr. TINCHER. And that under our present arrangement we have a constant market?

Mr. GATES. Yes, sir; every day we have a market. That is what I mean.

Mr. TINCHER. And by virtue of the constant market we have cash bids for wheat every day in the year—that is, every market day?

Mr. GATES. Not by virtue of that; oh, no.

Mr. TINCHER. Well, we have the cash bids, do we not?

Mr. GATES. You have the cash bids; yes.

Mr. TINCHER. It is not over 12 or 15 or 40 days that we have cash bids, but there is an every-day cash market for wheat?

Mr. GATES. Well, some one is usually buying; it may be in more or less limited quantities, but some one is usually in the market for certain supplies.

Mr. TINCHER. The board of trade that you are a member of is against the bucket shop, as I understand you?

Mr. GATES. We have put them out of business, sir.

Mr. TINCHER. And you are ready now to annihilate any that may be called to your attention?

Mr. GATES. Yes, sir. We have a case against some now out in Colorado. One or two showed up out there and we got after them at once.

Mr. TINCHER. You are doing that as an organization?

Mr. GATES. Yes.

Mr. TINCHER. You have a fund, I suppose, or have arrangements for the necessary steps?

Mr. GATES. Any expense incident to it comes out of the general funds of the association, which are the result of assessments on the membership very largely.

Mr. TINCHER. I believe you testified that the firm you are connected with had at times as much as $2,000,000 loaned on car lots of grain to the farmers?

Mr. GATES. No; I beg your pardon. Car lots of grain to country dealers on bills of lading with accompanying drafts.

Mr. TINCHER. Will you just explain so that some of us that may not understand the grain business as well as you do may know just what you mean? That is your property, isn't it? It is your wheat?

Mr. GATES. No; it is not our wheat. We hold title to the property, but we hold it as agents for the man who has shipped it, in case it is a consignment. If it has been purchased based on one of these bids "to arrive" that you spoke of, then it is our property on arrival at the official scales.

Mr. TINCHER. Well, you have simply paid for the wheat at the point where it was shipped from at the time it was shipped or billed to you?

Mr. GATES. In which case?

Mr. TINCHER. In either case. You have paid for it, as far as that is concerned, haven't you?

Mr. GATES. We have not paid for it; we have advanced money against it in the case of a consignment. If the value of the grain in the car is not sufficient to cover the advance that has been made, you have what is called an overdraft, which is collectible.

Mr. TINCHER. Yes; I have heard of them.

Mr. GATES. That is, if the man is solvent it is collectible.

Mr. TINCHER. Well, you have a rating on the man and know something about his solvency before you establish business relations with him?

Mr. GATES. Yes.

Mr. TINCHER. I believe you stated that at times you borrowed that money of banks.

Mr. GATES. I did not say anything about borrowing money to advance on bills of lading. I think only twice since we have been in business have we ever borrowed on bills of lading from the banks. But it is done in the trade; it is an ordinary practice.

Mr. TINCHER. I did not mean to refer to your own transactions.

Mr. GATES. Oh; I thought you were asking about the particular business transactions of the firm with which I am connected.

Mr. TINCHER. No. When the money is borrowed on the bill of lading it is borrowed, then, virtualy on the actual wheat? The wheat is in existence, in transit, or in the warehouse?

Mr. GATES. No, sir; it is borrowed just the same as any other money borrowed on collateral. It is borrowed on the note of the borrower, on which certain collateral is deposited, and not only that collateral, but the name on the paper with security to the bank.

Mr. TINCHER. I understand that; but it is not borrowed on a hedge of a future sale, and there would not be any bill of lading unless there was actual wheat would there?

Mr. GATES. No one will assert that a hedge is collateral. A hedge is a shifting of risk, making business safe.

Mr. TINCHER. It is not used as collateral in any way?

Mr. GATES. I do not understand that it ever is collateral, but it makes the hedger a safe man to do business with. There was a gentleman from the Southwest who, as I understand it, came up to Chicago. He did a good deal of business with Chicago banks during the period of movement. He came up there to a meeting, and went around to his bank, just as a matter of saying "Good morning." He said, "I suppose my line of credit is all right up here any time I want to use it?" "Well, I don't know," the banker said. "Are you hedging your wheat?" He said, "Why, no; we are not hedging our wheat." "Well, then," the banker says, "you have not any line here." He went away and came back and said that he had thought it over and would hedge his wheat. He was a man of his word—that is, they had confidence in his integrity—and when he assured them that he would hedge his wheat and conduct his business in it not on a speculative basis but on a basis of merchandising on a relatively small margin, and avoiding all risk possible, then they felt he was a safe man to do business with; but they felt they would be making a mistake in loaning him anything when he was risking a change in price of the commodity that he was handling when he might shift that risk to some one else, and particularly in view of the high price of grain at that particular time.

Mr. TINCHER. Well, you say you have known of these bankers, when they had the collateral and if a man did not hedge, taking some steps in that direction themselves?

Mr. GATES. That is, that because of that they would themselves have to sell out the collateral——

Mr. TINCHER. Yes.

Mr. GATES. That is true where the loan is made on a warehouse receipt; but in a great many cases it is not made on a warehouse receipt itself; it is made on the paper of the company.

Mr. TINCHER. Have you ever known of a banker selling short a loan of that kind for protection?

Mr. GATES. Personally I have never handled any such order, so far as I know. That has been done many times—I say many times; it is my impression it has been done several times. Warehouse receipts have been sold out by the banks that were originally held by the bank as collateral.

Mr. TINCHER. You know of cases, do you?

Mr. GATES. I will try to cite you a particular case; I will make a note of that.

Mr. TINCHER. You spoke about one of the steps that the exchange had taken itself being that its future contracts provide for a settlement of the claims, instead of the actual delivery, on a 10 per cent damage basis.

Mr. GATES. I am sure you do not mean to misquote me.

Mr. TINCHER. I assure you that I do not.

Mr. GATES. I know that you do not; but that is not an exact statement of the situation.

Mr. TINCHER. It would be remarkable if it were, because I was not permitted to examine you at the time, and can not remember word for word how you stated it.

Mr. GATES. I will read the rule:

RULE 23. SECTION 1. In case any property contracted for future delivery is not delivered at maturity of contract, the president shall appoint a committee of three from the membership at large, to be approved by the board of directors, which committee shall determine as nearly as possible the true commercial value of the commodities in question on the day of maturity of the contract, and the price so established shall be the basis upon which settlement is made. As liquidated damage the seller shall pay to the purchaser not less than 5 per cent nor more than 10 per cent of the value of the commodity as established by the committee, the percentage within said limits to be such as, in the judgment of the committee, may be just and equitable. Settlements shall be made without delay, and the damage as determined under the provisions of this section shall be due and payable immediately upon the finding of the committee. This section shall not be considered as applying to any parties having property both bought and sold, in any of which cases settlements shall be made upon the basis of the contracts established in such instances.

Mr. TINCHER. That is a rule of your exchange that I want you to explain to me. Why does not that rule contemplate cash settlement instead of delivery?

Mr. GATES. Because, sir, it provides for the exceptional case; it does not provide for the general conduct of business. It provides for the exceptional case, where default is made by the seller of the grain.

Mr. TINCHER. Then you tell this committee that it is the exceptional case when there is not delivery?

Mr. GATES. Yes, sir. Now, I understand you fully. The physical delivery of the particular grain hedged is not made. A $5 bill will settle a great many debts if properly started. We have contracts all the way around. I deliver 5,000 bushels to Congressman McLaughlin. He delivers to Congressman Lee. Congressman Lee delivers to you. You deliver to Congressman Purnell, and he to Mr.

Steenerson and Chairman Haugen, and so on around the table. There has been actual delivery in that case of the grain, one lot, or contracts of equal size, we will say, which has settled numerous contracts. It is a physical delivery of the warehouse receipt or the notice calling for that warehouse receipt, as property, as evidence of ownership of the property.

The Supreme Court has held that it does not even need to do that. If I can before the time of actual delivery offset a purchase against a sale which would otherwise wait for this actual delivery it has served its purpose and is fully as legal as though it were held open and the actual physical delivery made. It is just as, through the banks, payment by a check which is recognized is just as good satisfaction as though the currency were paid, and the bulk of our money transactions are settled through payment by check, not by the payment of currency.

Mr. TINCHER. You have given the committee some figures—I believe an estimate made by you, based upon certain figures that you have taken from some other man or organization—as a basis of the amount of grain actually bought and sold in the future trade, aggregating, I believe, some 10,000,000,000 bushels of wheat, in your judgment?

Mr. GATES. Oh, I should say that that is a reasonable deduction from inadequate data. I have very meager data, naturally, from which no one could form an exact judgment. But in a general way I should say that that would be pretty near the maximum.

Mr. TINCHER. Then, based on your judgment, arrived at in the inadequate manner in which you arrived at it, you took occasion to remark that that did not constitute 14 times, nor 40 times?

Mr. GATES. No, sir; because those figures had been quoted here as if they were a true statement of the situation even this year when the market was not open.

Mr. TINCHER. And as an officer in the Chicago Board of Trade, you are satisfied with the answer that you are now making to those figures—your estimate based on those inadequate figures?

Mr. GATES. I was trying to show my willingness to discuss the matter with this committee. The figures which will be furnished by the Federal Trade Commission will be better for the guidance of anyone than the estimate that I have made. I am not satisfied with the estimate I have made.

Mr. TINCHER. I think I gave the figures fourteen times or forty times in your presence—I got the figures from some other Member of Congress here—and stated then that I did not know they were correct. However, if the legitimate dealer has that hedge six times, which was testified here yesterday, and there were 1,000,000,000 bushels of grain produced in the United States last year and only 10,000,000,000 bushels dealt it, that would only leave 4,000,000,000 for what you might call the purely speculative trade?

Mr. GATES. I made the remark that probably that average was not any such number of times for the dealer himself. I said a case had been cited of six times.

Mr. TINCHER. A dealer testified yesterday that that was the necessary method of hedging in grain futures, that they all used it.

Mr. HULINGS. Oh, no.

Mr. GATES. No; there was no such testimony as that.

Mr. TINCHER. He said that was the customary way, and I asked him if they all used it, and he said they did.

Mr. HULINGS. I do not remember it that way.

Mr. TINCHER. The next witness, however, said that he hedged once, and that was the way he handled it, so I do not know. You say that the objection to the limiting of hedging to three times would be the possibility of manipulation by the large dealers?

Mr. GATES. I say that that might happen, sir. There is a possibility of that happening, and it could happen under the provisions of that bill.

Mr. TINCHER. I believe you testified that you have rules in your exchange designed to prevent manipulation that will permit of too high a market?

Mr. GATES. No, sir; I said that we had a belief that manipulation, except of a very temporary character, could not be accomplished on the short side of the market. I said that we had tried to safeguard the market against the manipulator who buys.

Mr. TINCHER. I understood you to say that you had adopted rules. Maybe I am becoming forgetful. I understood you to say that you had adopted rules and had taken steps to prevent the manipulation of the market on the part of the purchaser to put the price higher.

Mr. GATES. I said that that was the chief danger, that we had never thought it was possible to manipulate the market in the other way, except for a very temporary period and a small amount.

Mr. TINCHER. I do not want to haggle with you. Did you say you had adopted any rules or not?

Mr. GATES. I said we had adopted rules to prevent corners, to hamper the manipulator who wished to corner the market or to affect it.

Mr. TINCHER. Then I was right in my recollection of your testimony, that you had adopted rules. Now, am I right in this, that you stated you had not adopted any rules tending to hamper the manipulator that was putting the price down, except that he would be the open enemy of all the other buyers, and they would take care of that for themselves?

Mr. GATES. Oh, no, sir; it is any manipulator. The other man is just as much an enemy of the trade; the trade will all try to put him out of business if they can, either way. I never have found any indication of manipulation on the down side. If there were any such, if there were a disposition on the part of a man to depress the market there would be the same attitude toward him as there is on the part of the trade on the other side. The attitude is going to be the same toward any man who tries to throw it out of line in either direction. But in the case of the man who sells they will check him up very quickly, because they will simply hold him to the fulfillment of his contracts and he will not be able to get away with it.

Mr. TINCHER. I take it from your statement that you have as much as $2,000,000 out on bills of lading at one time; that you do an extensive business?

Mr. GATES. I said that to illustrate that the movement of grain at times is verv heavy. I do not suppose that at present we have one-tenth of that out—probably we have now, because there has been a movement of corn.

Mr. TINCHER. A gentleman holding a position similar to yours but with a smaller concern testified before this committee yesterday that personally and from his firm's standpoint he wanted fluctuations, because it was on fluctuations that they thrived. Were you here when that gentleman gave his testimony?

Mr. GATES. I do not think you can put it just that way. Mr. Berry, of Indianapolis, I think, said they liked a fluctuating market.

Mr. TINCHER. I think he said they made their money out of fluctuations. Is not that the answer he made?

Mr. GATES. I heard one answer, but I did not follow him through his testimony.

Mr. TINCHER. Does your company make any money out of fluctuations?

Mr. GATES. No, sir.

Mr. TINCHER. You folks want a steady, stable market?

Mr. GATES. Why, I want a market that is stabilized so far as it can be stabilized, but you never can fully stabilize a market.

Mr. TINCHER. Mr. Dickinson in asking some witness a question the other day, said that the price of wheat fluctuated only about 7 cents, I think, during a given period in June, and as I understand you to-day, you say those figures are inaccurate.

Mr. GATES. I understood him to say it had only changed 7 cents a bushel between the first of June and the middle of July. Was that the gentleman's statement?

Mr. TINCHER. I do not remember his figures, but if you want to correct something that he put in——

Mr. GATES. I am not going to correct it for him. I stated they were essentially in line with the fluctuations; that is, I had not the full data. I should be very glad to see what the figures were; they were very much more than that.

Mr. TINCHER. I should like to know, for my own information, what the fluctuations were from the 1st of June to the 15th of July?

Mr. GATES. From $2.73 to $3.01 in June.

Mr. TINCHER. Is that cash grain?

Mr. GATES. Yes, sir; that is all there was. And from $2.80 to $2.92 in the first 15 days of July. That is on hard wheat.

Mr. TINCHER. What day in June did you get that $2.73?

Mr. GATES. The 28th day of June.

Mr. TINCHER. $2.73 on the 28th?

Mr. GATES. Yes, sir.

Mr. TINCHER. What day of June was it the highest, the other figure?

Mr. GATES. The 4th day of June.

Mr. TINCHER. What day did the Government cease?

Mr. GATES. The Government ceased on the 31st of May as a buyer.

Mr. TINCHER. What fluctuation was there between the 15th of July and the 1st of August, since you are putting figures in?

Mr. GATES. I included the 15th in what I gave you before. From the 16th on the high price was $2.88 and the low $2.30.

Mr. TINCHER. The first 15 days of July, then, there was a fluctuation of about 7 cents?

Mr. GATES. I have not referred to them; I did not keep it in mind as to just what it was.

Mr. TINCHER. And the last 15 days something like 50 cents?

Mr. GATES. Yes.

Mr. TINCHER. The first 15 days they were not trading in futures and the last 15 days they were. I think that is what Mr. Dickinson had in mind the other day when he asked the question, although I do not know. I had heard those figures before, or something like it; in fact, I think I heard some one mention that out in Kansas about that time that there was some little fluctuation going on since the board of trade had commenced trading in futures.

Mr. GATES. Do you know what else happened?

Mr. TINCHER. Do I know what else happened?

Mr. GATES. Yes, sir; that might have had an influence on the market.

Mr. TINCHER. I have heard a good many things explained here that happened; I have heard the Federal Trade Commission.

Mr. GATES. Do you know that the British royal commission dropped out as a buyer on the 29th day of July, and remained off the market three months?

Mr. TINCHER. They did not drop out until the 29th day of July?

Mr. GATES. Not entirely; they were not paying the same price all the time, though, nor did they during June.

Mr. TINCHER. I do not think if I was trying a lawsuit and I was on one side and you were on the other that I would ask you this question. But I am not; I am just trying to get facts. So I am going to ask you—I do not mean by that to say anything disrespectful toward your attitude, because I have not anything but the highest regard for your attitude. But I want you to explain the cause of the difference between futures now and cash wheat.

Mr. GATES. This is simply an opinion, a personal opinion?

Mr. TINCHER. Yes.

Mr. GATES. That there is a belief on the part of those who are willing to contract for May delivery that wheat will be cheaper in May than it is to-day; that there will not be the demand for the wheat in May that there is now for wheat. They think this year that the demand will drop off; they figure that the price will decline—cash wheat I am talking about. We are speaking about the difference between cash wheat and the future?

Mr. TINCHER. Yes.

Mr. GATES. The adjustment will have to be made by the time May comes, because that future price and the cash price come together inevitably, at that time or before that time.

Mr. TINCHER. If the cash price of wheat does not drop, the man who has made futures will have to continue his prices and will have to buy July futures.

Mr. GATES. Let us get the start of that transaction. What is the transaction?

Mr. TINCHER. I say, a man who has made futures, like you were talking about, if it does not drop for cash wheat, will have to continue his prices and will have to buy July futures.

Mr. GATES. What has he got it for? How does he come to be a buyer? Is he a speculator or a hedger?

Mr. TINCHER. I understand about all of them were for delivery, from the questions. You were talking about a hedge, as I under-

stood at one time. If he has got his hedge, then he will have to go ahead and buy June, July, or some other?

Mr. GATES. Oh, no.

Mr. TINCHER. He can take his loss in May.

Mr. GATES. He will not take a loss if he hedges. You say he has bought this hedge, as I understand it?

Mr. TINCHER. Suppose he has sold it, then? Take it the other way. If he is playing, like you say they are figuring, that cash wheat will come down in May.

Mr. GATES. I understood you to speak of a trader in figuring that way. My opinion was based on that speculative trade, not hedging. So, if he is hedging grain, has bought cash grain above that basis, then he has not eliminated all the risk. I said that the risk was eliminated as far as it could be. You can not always get 100 per cent insurance; sometimes you can not get more than 50 per cent insurance. In such a case it would not act as 100 per cent insurance, Mr. Tincher; it would only act as a partial insurance, and he would still have the risk of changing the spread between the price of the cash article and the price of futures. That he has not eliminated. But in the ordinary course of merchandising the difference will not vary a great deal from day to day. As one of the dealers who testified here stated that he might lose half a cent before he would be able to merchandise, or maybe a cent; sometimes more. We do not claim it is absolute protection, 100 per cent insurance, but it is the best insurance that there is in any line of business to eliminate the risk of ownership that necessarily exists.

Mr. TINCHER. Do they keep a record of the transactions on the Chicago exchange so it would be possible for some officer of that exchange to give us the amount of wheat dealt in in the course of the year?

Mr. GATES. I do not know whether you were here early in the meeting this afternoon.

Mr. TINCHER. Oh, yes; I was here when you asked the Federal Trade Commission for it.

Mr. GATES. We have not got it; otherwise I would not have asked you for it.

Mr. TINCHER. Here is what I was wondering, if there is no way you have it, I was wondering how they could get it.

Mr. GATES. No; because we threw our books open, sir, three and a half years ago, we gave up the legal right we would have to deny, those of us who had such a right, and said, "Come in and see anything there is here," and we spent a good deal of time with them.

I think Mr. Watkins, who is here, will agree that every courtesy was shown the members. The only time when we had a serious difference, as I recall, was when they wanted us to do some of the work which they should not have done, we thought; and we had a difference about that.

Mr. TINCHER. The question that I mean to ask you about is this: Your books actually show every transaction in the pit and on the board of trade?

Mr. GATES. Collectively, the books of all the different companies do; yes, sir. But they are private records of the individuals, firms, and corporations that compose that membership.

Mr. TINCHER. Right there, your throwing yearbooks open to the Federal Trade Commission would not necessarily give them the information that you asked them to put into the record?

Mr. GATES. Certainly we gave it to them; gave them every opportunity to get it.

Mr. TINCHER. Each company turned their books over?

Mr. GATES. Yes, sir; I do not know of any company who refused.

Mr. TINCHER. That is what I am trying to get at, how they could get those figures. As I understand you, they could get the actual volumes of that business only by going to the books of each company doing business on that exchange and taking it from their books?

Mr. GATES. Yes, sir. There was no place where the totals were collected. No one knows, Mr. Tincher. I hope you will believe me on that. I tell you as sincerely as I can that we have not that data, either officially or any individual, and we can not get it. There is no power under our rules that will enable us to get that sort of thing in time of peace. We got it in time of war through the operation of war rule, and a little stretching of that, possibly. But the members stood for it. They were willing to do that when it was a matter of complying with the Government regulations and protecting the good name of the association during the war. But they will not stand, and I think they have very definitely declared within the last few months that they will not stand for an arbitrary use of executive power or abuse.

Mr. TINCHER. You have talked about that to your own satisfaction. During the war they were not trading in grain futures, were they?

Mr. GATES. Oh, yes.

Mr. TINCHER. I mean in wheat futures?

Mr. GATES. No; not in wheat futures.

Mr. TINCHER. The most of the trading in futures is wheat rather than other grain?

Mr. GATES. When wheat is being traded in, I think I have it in the record that according to the Federal Trade Commission report in the cause of the decline in wheat, they stated some place that about 50 per cent of the total trades of all grains was usually in wheat.

Mr. TINCHER. Do you know whether that part of the report referred to futures or not?

Mr. GATES. I understand that it did; sir [reading]:

> Total trading appears to be not much less than the corresponding months in period of heavy trading before the war. But prior to the war wheat usually accounted for at least half of the total future trading.

Mr. VOIGT. How do you account for the fact that there is not more trading in corn when there is a larger volume of corn, compared with wheat?

Mr. GATES. The marketable part of the corn crop is usually not as large as the marketable part of the wheat crop. Not over 20 per cent of the corn that is raised ever leaves the county in which it is grown, and in most cases not over 15 per cent of the corn that is raised.

Mr. VOIGT. What percentage of the wheat crop, do you estimate, is marketed?

Mr. GATES. All except what is needed for seed—practically all. In some years there is some fed on the farm, but not very often. But as a usual thing the price of wheat is such that it is sold and feed grains bought, if necessary, rather than feed the wheat. There have been exceptions to that; for instance, of that poor quality crop that I spoke of, I think there was quite a little more than formerly fed on the farm, because the wheat was of poor quality. It was not desirable in a merchandising way or for milling. A lot of wheat was not suited for milling that year.

Mr. VOIGT. What is your opinion, based on the information that you have, as to the amount of wheat that is sold in the Chicago board in a year?

Mr. GATES. Well, I would judge, from the little I have—I think we will get it definitely within a few days—maybe I can when I go over volume V, of which I have a copy here. But the best I can estimate is as a maximum, around 10,000,000,000 bushels in the course of a year is the total trading.

Mr. VOIGT. On the Chicago exchange?

Mr. GATES. No; I would not think that would be on the Chicago exchange only. It might, though. Let us now, for the sake of this matter, suppose it is Chicago only.

Mr. VOIGT. What percentage of the wheat was handled on the Chicago board?

Mr. GATES. Very little, sir. I explained that in the natural evolution of the trade the grain itself had sought the lines of least resistance in going between producer and consumer, while the hedging and market had remained at Chicago. It is a matter of evolution from a time when both the physical grain and the hedge went through Chicago. Do I make myself clear on that?

Mr. VOIGT. Then you mean to say that the contracts do not involve an actual delivery being made on the Chicago board, notwithstanding the fact that the wheat passes through other channels?

Mr. GATES. Oh, no; I mean this, that the wheat which is never expected to move to Chicago physically is hedged in Chicago. There is no expectation on the part of the hedger at the time he makes that contract for the purpose of a contract grade of grain in Chicago—there is no expectation in his mind that he will physically ship the particular grain that he has hedged to Chicago.

Mr. VOIGT. That is what I said, if you understood me. I said that the contract for the grain, of which delivery is not actually made, is made on the Chicago board, notwithstanding the fact that the wheat goes through some other channels?

Mr. GATES. Yes; and very much of that is that way, Mr. Voigt.

Mr. VOIGT. Suppose I speculate in wheat—that is, I buy or sell; and it is my impression that there will be no delivery on my contract; that is, I simply take a flier in the market, and that order is matched up with an order on the part of another man.

Mr. GATES. What do you mean by "matched"?

Mr. VOIGT. If I sell somebody has got to buy?

Mr. GATES. Yes. But there is not any matching of orders, except in the auction market. That is in the rules that the buyer or seller must accept the first "bid" or "offer" that is made.

Mr. VOIGT. What I am getting at is this: Suppose I buy 10,000 bushels of wheat and put up a margin. I do not intend to deal in that grain at all; I am just speculating on the market. It is my intention that if I get a rise of profit I am going to sell out and take my profit. Suppose somebody takes the other side of that deal. Of course, we do not know who he is, but suppose he is a man whose intentions are exactly like mine, and he is speculating on the market. We are just betting against each other in that case?

Mr. GATES. If that is your mental attitude, that is the effect of it; simply a bet, one against the other. You do not disclose your attitude. The chances are 99 to 1 that you will be really performing a service that you do not intend to perform. Suppose your mental intention is to gamble. The chances are 99 or 100 to 1 that you are, as a matter of fact, assuming part of a hedge that has been put in that market.

Mr. VOIGT. Some other fellow on the other end of the deal whose intentions are just like mine?

Mr. GATES. If you get together and agree that you will do that. You bet the market will go up and somebody else bets that the market will go down. But you can probably do that most anywhere, because it would not be necessary for you to use the machinery of the board of rade and pay for doing it. You might get somebody else on the outside of the board of trade for that purpose.

Mr. VOIGT. Providing I could get a man who would bet me on my terms, and the convenient place to find that man is on the board of trade or through the board of trade.

Mr. GATES. I should not like to have that go as of record as my assenting to that, sir.

Mr. VOIGT. I want to get your opinion. Assuming that part of the deal, do you call that speculation or do you call that a gamble?

Mr. GATES. I call that an intended gamble, but that intent is not disclosed to your agent who makes the trade for you with good intent. Do you get that?

Mr. VOIGT. If I go to a broker in Chicago and tell him, "Here is $1,000. I want to take a flier in wheat. I want you to buy me so many bushels." He would not object to putting through that deal, would he?

Mr. GATES. That would depend on how he ran his business. I would not take a trade from any man if he discloses to me an intent to gamble on it.

Mr. VOIGT. The fact is that many men do play the market in just the way I have described?

Mr. GATES. Do they disclose their intent?

Mr. VOIGT. No; without disclosing their intent to do it.

Mr. GATES. And their agent acts in good faith.

Mr. VOIGT. I am not speaking now about the agent who makes the contract in good faith. I am assuming he is not acting in good faith, and my order meets the order of some fellow whose intention was just like mine. That happens every day on the exchange, does it not, that somebody speculates that way?

Mr. GATES. Oh, yes. Whether or not speculations in trade meet, it would not be a chance that they might or might not. The contracts,

however, you understand, are made by members of the Chicago Board of Trade; they are not made by you; they are made for you.

Mr. VOIGT. I understand why you operate, and I understand, I believe, what your contract is. But I was trying to find out from you whether you call a given transaction a gamble or a speculation.

If I deposit money with a broker and tell him to buy me so many thousands bushels of wheat, and if my intention is to make a profit on that wheat, if I can get it, and not to bother myself at all about the delivery of grain, what would you call me, a speculator or a gambler?

Mr. GATES. I think you are a speculator, sir. You know that wheat will change in value, do you not? That is why you want to assume a risk for the purpose of either making money or take the chance of suffering the penalty of losing money because of the decline. You know there is a risk there and that the market will change?

Mr. VOIGT. Surely; that is the thing I feel I am betting on. I am taking the risk on something that I can not control. Of course if I have got any sense at all I am using that little sense. I may be entirely wrong and think from certain things I hear and know that the market is going up, and it may go down.

Mr. GATES. You are a speculator, even though you do not expect to be able or that it will be necessary for you to wait for that profit until you actually get the delivery of the grain in May. You may say, "Now, I believe that this wheat is going to advance in the next four or five weeks. So I will buy some wheat for May delivery."

Mr. VOIGT. Let me ask you about a case like this: Here are a half dozen horses that are going to run a race, and we will say I am a good horseman. I go and look that string of horses over and I come to the conclusion that one of these six horses is the best horse, and I bet $100 that that horse is going to win the race. Where is the difference between that proposition and the man who thinks that grain is going up and puts up his money on that theory?

Mr. GATES. Dr. Samuel Johnson defined "gambling" as the transfer of property without any incidental services. You have not performed any service by taking the risk? You have self-imposed it.

Mr. VOIGT. I do not feel I have performed any service when I made the grain contract.

Mr. GATES. There is not a risk there that somebody must take in a horse race. There is no risk about that. The race would go on just the same; it might not come out just the same. But it would go on just the same whether or not there was any betting on it, would it not? You are going to have a horse race; no risk about it.

Mr. VOIGT. I am using my judgment on the outcome of that horse race.

Mr. GATES. Well, but you are not performing any service by using your judgment.

Mr. VOIGT. Do I perform any service when I speculate in the grain market?

Mr. GATES. Yes, sir; very decidedly.

Mr. VOIGT. That is, this service of insurance that you speak about?

Mr. GATES. Yes, sir; and if I have not made that clear I have failed entirely, sir, to show that without that service of the speculator you can not handle the crops as at present on the narrow margin for the man who actually handles it in commercial channels.

Mr. McLAUGHLIN of Michigan. As I understand it, Mr. Voigt, you get a broker to buy you a thousand bushels of wheat. Some two gentlemen on that board have got to enter into an arrangement, and there is a contract by which the delivery of the real wheat can be demanded, and you may find it necessary to put that thousand bushels of wheat you bought in your pocket and take it back to your town.

Mr. VOIGT. No; I do not have to. I can close the contract any time I want to.

Mr. McLAUGHLIN of Michigan. Well, there is a delivery. You have to take that wheat and put it in your pocket and go home with it.

Mr. GATES. You could not put it in your pocket now if it is bought for delivery in May.

Mr. McLAUGHLIN of Michigan. In May you will have to go back to Chicago and get that wheat.

Mr. VOIGT. I have not seen anybody carrying it around in their pockets in Chicago.

Mr. McLAUGHLIN of Michigan. These gentlemen say it is delivered.

Mr. VOIGT. Let me ask you, suppose I bought a thousand bushels of wheat for May delivery. I can always put myself in a position where I do not have to accept that wheat; is not that true, by closing out my contract?

Mr. GATES. You, personally; yes, sir; but your agent may still have to take it for you. He does not necessarily communicate with you that he has taken in a thousand bushels of wheat to-day and delivered it out through a sale that you had with him.

Mr. VOIGT. No; but he could simply resell that contract to somebody else, could he not, by paying the difference?

Mr. GATES. No; you can not deal on differences that way.

Mr. VOIGT. As I understand, the board is open on the wheat business to-day?

Mr. GATES. Yes, sir.

Mr. VOIGT. Suppose wheat is $1 a bushel, or $2. I buy a thousand bushels at $2. Now, then, it goes down, you say, to $1.90. I can drop that transaction any time I want to by paying 10 cents a bushel, can I not, and whatever the other charges are?

Mr. GATES. You can sell that contract; yes, sir.

Mr. VOIGT. And there is somebody who takes my place, so to speak?

Mr. GATES. Yes, sir.

Mr. VOIGT. Now, then, if the gentleman who succeeds me makes 5 cents a bushel or loses 5 cents a bushel, he can close out?

Mr. GATES. Yes, sir; he can transfer the contract to somebody else, who is opposite, or by a new sale.

Mr. VOIGT. So, then, there is never any danger of a man who buys and sells wheat on the future ever getting the actual grain?

Mr. GATES. What do you mean by "danger"?

Mr. VOIGT. He can close out his contract any time he wants to?

Mr. GATES. He can make a countercontract of sale.

Mr. VOIGT. That is what I mean.

Mr. GATES. On which that grain can be applied.

Mr. VOIGT. He can rid himself of that transaction by paying the difference any time.

Mr. GATES. Yes; but his agent can not rid himself of it that way.

Mr. VOIGT. When I close out my transaction, I am through with it, and I do not have to fill any obligation that I may have to deliver or accept grain.

Mr. MCLAUGHLIN of Michigan. Can not his agent relieve himself by paying the difference?

Mr. GATES. Not unless it is acceptable to the other side of the contract that they shall settle those contracts which will offset before the time of delivery. He can not be compelled to do that.

Mr. VOIGT. Is there no board of trade in Argentina?

Mr. GATES. Not much of a one. They are supposed to have a board of trade down there, but it is not much of an institution.

Mr. VOIGT. Have they not a market place where grain is bought and sold?

Mr. GATES. Yes; there is such a place.

Mr. VOIGT. Do they deal in futures down there?

Mr. GATES. Not to amount to anything; no large amount of futures are dealt in there, as I understand it.

Mr. VOIGT. How do you account for the fact that in a country like Argentina that there is not this same machinery?

Mr. GATES. Because the thing is handled by four or five fellows and they control the business.

Mr. VOIGT. How do you account for the fact that these four or five men can do this, when I understood you to say that by allowing the dealing in futures a man with comparatively small means may enter the business?

Mr. GATES. Yes, he may; if you have that kind of a market where he can protect himself; they have not in Argentina.

Mr. VOIGT. You mean they do not deal in futures at all down there?

Mr. GATES. They claim to have an option market or a "bid" and "asked" market, or something of the kind, but there is no trading in futures such as we understand it in this country.

I would ask that some one who can personally verify that testify to it. My information is simply hearsay. I have never been in Argentina, Congressmen, and that is my impression of the trade there, and that is my belief about it.

The CHAIRMAN. Is not most of the land in Argentina owned by a few people?

Mr. GATES. I understand there are some very large landowners. There is not the general prosperity that there is in a country like this, there is not the average moderate wealth, the number of persons of moderate means that there is in this country.

The CHAIRMAN. I have been told that all the land, practically, is owned by a very few.

Mr. GATES. There is no doubt of that, as I understand it, but I think Mr. Griffin can better answer that than I.

The CHAIRMAN. How many grades of the deliverable wheat on contract are there in Chicago?

Mr. GATES. I think there are 23, Mr. Chairman.

The CHAIRMAN. Are they fixed differences or commercial differences?

Mr. GATES. They are fixed differences at the present time; yes, sir.

The CHAIRMAN. What is the fixed difference now of No. 3 and No. 2?

Mr. GATES. No. 3 and No. 2 what?

The CHAIRMAN. Dark northern spring No. 3 and No. 2.

Mr. GATES. No. 3 dark northern spring and No. 3 red spring, a discount of 8 cents a bushel.

The CHAIRMAN. Some one stated it was 8½. How about hard white No. 2?

Mr. GATES. Hard white Nos. 1 and 2 at a discount of 5 cents a bushel.

The CHAIRMAN. I was not sure just what you said about the bucket shops, about the quotations. Are we to understand the quotations did not conform to the actual quotations; was that about the substance of what you said?

Mr. GATES. I do not understand you fully now, Mr. Chairman.

The CHAIRMAN. I mean the quotations given on the blackboard in the bucket shops?

Mr. GATES. There are not any bucket shops, so far as I know.

The CHAIRMAN. When they were in operation?

Mr. GATES. When they were in operation they purported to be the current record of transactions which, as a matter of fact, they were not.

The CHAIRMAN. They did not always respect the actual quotations?

Mr. GATES. Oh, no.

The CHAIRMAN. Or respect the market prices?

Mr. GATES. Oh, no; that situation was this: That where an ordinary commission merchant has every interest in protecting the interests of the man who trades through him, uses him as his agent, in a bucket shop, the interests of the two are diametrically opposite. Everything was done in the bucket shops to make the other fellow lose—that is, by the operator in the bucket shop. They simply had a bet between themselves. If by a manipulation of the supposed quotations he could throw him out of the market he did it.

The CHAIRMAN. They were false representations?

Mr. GATES. Fraud, pure and simple.

Mr. MCLAUGHLIN of Michigan. Do you mean to say that the figures put up on the blackboard are not the actual figures offered at Chicago?

Mr. GATES. Where are they put up on a board—in a bucket shop?

Mr. MCLAUGHLIN of Michigan. Yes; a bucket shop.

Mr. GATES. They would put on the blackboard wheat $1.45; that purports to be the Chicago market. It probably purports to be that, if there is such.

Mr. MCLAUGHLIN of Michigan. The next morning when the paper is received we see what the actual transactions on the Board of Trade in Chicago were, and anyone who looks at it will know whether those figures on the blackboard the day before in this bucket shop were false.

Mr. GATES. No; their range may agree. You would have to go to the official records on the Exchange to ascertain whether in the bucket shop when they put up such a price at the time it was really quoted at that.

By manipulation of those quotations within the range of actual trading the bucket-shop man, as I understand it, would get his man

in and out; that is, he encourages a man to take a trade on a very small margin of protection, maybe a half cent or a cent, in the case of the more active market. Then they would simply mark up a quotation that would show it had gone down that much or up that much, and so you are out; and they take your money. There was no transaction about it.

Mr. McLAUGHLIN of Michigan. Could he not see that when the paper comes out the next day?

Mr. GATES. No; you can not do that, because it may be within a range, and there is a chance for the operator of the bucket shop himself to manipulate the quotations that he posts which are not really quotations at all; simply a lot of figures within the range of actual transactions.

The CHAIRMAN. Some one stated that they simply stole the quotations from the other man.

Mr. GATES. They do, but they do not always give them the quotations in the bucket shop the way they really occur.

The CHAIRMAN. Did not the quotations on the blackboard in the bucket shop represent the Chicago market, for instance, the bucket shop in Iowa? Were they not what they purported to be, say, wheat 1.48?

Mr. GATES. I do not know; I never was in one in my life.

The CHAIRMAN. I never was in one in my life either, but I am trying to find out something definite about them.

Mr. GATES. As I understand it, they had a fast wire that would show the actual quotations, that is, the wire that was tapped onto a wire carrying quotations.

The CHAIRMAN. Did those quotations go to the blackboard?

Mr. GATES. They would get that information and have it for their own quotations, and then have a delayed wire on which they would run quotations within what they knew was the actual range, just to suit their conditions in getting the customers in and out.

The CHAIRMAN. Just manipulation of the quotations?

Mr. GATES. Yes; purely; and the great difference is this, that no commission merchant on a real market has any desire to do other than the best he can for the man he has as a customer or client. He gives him the best service he possibly can. His interest is to protect so far as he can the interests of that client; whereas in the bucket shop; that is, if there were no differences so far as the economic end of it is concerned—in a bucket shop the interest of the keeper of the bucket shop and the interests of the supposed client are at odds all the time, one loses and the other wins. The bucket-shop keeper does try his best by every crooked means to make his customer lose.

The CHAIRMAN. You said something about the limitations. You are opposed to limitations in speculation?

Mr. GATES. Mr. Chairman——

The CHAIRMAN (interposing). Not limitation on hedging, but outside of the hedging.

Mr. GATES. Mr. Chairman, we tried limitations during the war.

The CHAIRMAN. What was it?

Mr. GATES. Two hundred thousand bushels. That was a time of extremely inadequate transportation, when there was the thought that there might be a chance to manipulate in a very narrow market:

that is, I suppose that that is the reason for it. We were asked to put on a limit because the market was advancing, and in all the trades on all the books of the houses in the whole market I think there were something like 26 accounts that were affected, and the market did not change its general trend when the limit was put on. Yet in the following year, when it was taken off, it did not change its general trend. In other words, those artificial interferences do not really affect the price, but they do interfere with the individual right of contract.

The CHAIRMAN. The regulation also restricted speculation. The restriction might be severe, but suppose it was 400,000 or 500,000. Should there not be some limit somewhere?

Mr. GATES. Mr. Chairman, that is a question which only recently has been broached to us in any way, except as a war-time measure. We are not ready to say at all that we think it is wise to put such a limit on trading in times of peace.

Mr. STEENERSON. I will say that I have been very much interested in this discussion of this future trading, and, in the first place, I want to ask if this hedge that you mention so often covers both the sale and the purchase—that is, a man who has a hundred thousand bushels in his elevator on hand and sells it for future delivery, he hedges, does he not?

Mr. GATES. Yes; that is what we call a hedge; that is one side of the hedge.

Mr. STEENERSON. A man who buys that 100,000 bushels from him sells it again; is that also a hedge? If I buy a thousand bushels of wheat from you and you actually deliver it to me, is it my property? I am assuming I have an elevator and I have certain wheat in the elevator, and to sell 100,000 bushels to you on future delivery.

Mr. GATES. Yes, sir; and I buy it.

Mr. STEENERSON. But you do not get the wheat.

Mr. GATES. You have the wheat in your possession. When I sell it I sell the same right that I have when I bought it from you.

Mr. STEENERSON. It simply transfers, as you explained awhile ago, the right that you had to the other man?

Mr. GATES. Yes, sir; passes it along; that is, so far as its service in the hedging are concerned.

Mr. STEENERSON. Those transactions are included in the term "hedge," however numerous they may be. That man may transfer——

Mr. GATES. Wait just a minute. This man who bought it and sold it may be a speculator. You are not hedging; you are not hedging anything. I sell you 100,000 bushels.

Mr. STEENERSON. Yes.

Mr. GATES. I am hedging; I have got wheat in my elevator, we will say. You are a speculator; you are willing to carry that risk a little while. If you find that it is going to cost you a loss, you may want the other fellow to take part of the loss, so you will sell that contract you have bought of me to somebody else; that is the effect of it.

Mr. STEENERSON. Of that original amount of wheat?

Mr. GATES. Yes, sir.

Mr. STEENERSON. And it is all included in the operation termed "hedging"?

Mr. GATES. No; they do not call this other hedging; they call one side of it speculating and the other side hedging.

Mr. STEENERSON. The term "hedging" is limited to the man who has wheat on hand and sells it to protect himself against loss in the price?

Mr. GATES. That is so far as the selling hedge is concerned.

Mr. STEENERSON. Is there a buying hedge?

Mr. GATES. Oh, yes; the exporter.

Mr. STEENERSON. When does that occur?

Mr. GATES. The exporter gets the bid from the other side to-day. He may accept that bid, and immediately want to protect himself. So he wires and buys for future delivery until he can accumulate the actual wheat of the particular kind that is called for in his contract for export; and the buyer may do the same way.

Mr. STEENERSON. There is hedging done both on the so-called long and short side of the market?

Mr. GATES. Oh, yes, sir; depending on what the man's cash transaction is.

Mr. STEENERSON. You spoke a while ago about a limitation on the future price of barley, which was placed by the Government, I believe. Do you recall that?

Mr. GATES. I do not recall any such thing in barley; there was in corn.

Mr. STEENERSON. Was it corn?

Mr. GATES. You mean where we limited the price to $1.28?

Mr. STEENERSON. Yes.

Mr. GATES. Yes.

Mr. STEENERSON. And then the cash price went up to $1.60?

Mr. GATES. Yes.

Mr. STEENERSON. Was that barley?

Mr. GATES. No, sir; that was corn.

Mr. STEENERSON. Was that a Government regulation?

Mr. GATES. It was. We did it, but my understanding was that the suggestion was made by the Government agents that we do something to prevent an advance.

Mr. STEENERSON. Just state what that order was.

Mr. GATES. I have no personal knowledge of that, and could not testify to it. I was not an officer of the board at the time.

Mr. STEENERSON. I simply want you to explain just what it was.

Mr. GATES. Well, I would think that someone else who will follow may be in a better position to do that for you.

Mr. STEENERSON. I do not think there need be any hesitancy. We do not want to go into anything except what is fair and right.

Mr. GATES. Here, Mr. Congressman: We have several men here who are available and who are men who have been in official positions at different times during the war, and each man knows best about the time.

Mr. STEENERSON. I was not going that deep. I was simply going to ask again, if this order was issued either by reason of the Government's suggestion or by the organization itself that the future price of corn should be $1.28.

Mr. GATES. The value of the contract for future delivery was limited to that. Trading was prohibited in that grain for those deliveries above that price.

Mr. STEENERSON. How long in the future did that operate; was it four months or two months?

Mr. GATES. Several months, I think.

Mr. STEENERSON. Do you remember what month, May delivery or what?

Mr. GATES. I think the regulation limiting that price was put on in July, and the contract terminated in December and May following.

Mr. STEENERSON. And during that time you say the cash price went up?

Mr. GATES. The cash price? I do not know whether I said it went up.

Mr. STEENERSON. To $1.60.

Mr. GATES. It ranged between $1.60 and $2; it never was lower than $1.60 or higher than $2.

Mr. STEENERSON. What was the cash price when this restriction on the future price was made?

Mr. GATES. You understand the difference between those, Congressman—one in July, when you are drawing in the old crop, and the prices of the old crop as compared with the wet new corn are usually better than they are for the new corn. The price for December delivery had not advanced to $1.28 at that time.

Mr. STEENERSON. Oh, I see.

Mr. GATES. But as they came along in the fall, through August and September and October, November, and December, at no time did the cash article, either of the old crop or the new crop, sell below $1.60, and sold as high as $2; while the possibilities of an advance in the contract for future delivery were limited. In other words, it was a contract which was limited in its possibilities on one side.

Mr. STEENERSON. And then it would seem that the limitation on the future contract price had something to do with the fluctuation of the cash price?

Mr. GATES. It had this to do with it, sir, that it was absolutely unsatisfactory as a hedging market; and, consequently, the commodity itself was handled purely on a basis of merchandise and very little hedging.

Mr. STEENERSON. I am simply asking what you think about it. I am asking your theory about it.

Mr. GATES. It was not the service at all; it was simply a matter of keeping the machinery.

Mr. STEENERSON. Supposing that you had been unrestricted, what, in your judgment, would have been the difference between cash price and the future price of corn during that period?

Mr. GATES. I think it would have continued as it did continue for a time. But as you more nearly approached the period of delivery, it would have more nearly reflected the cash situation.

Mr. STEENERSON. During the last two or three months what has been the status of the cash price of wheat and the price of future wheat?

Mr. GATES. It has been for the most time—all wheat of contract grade—at a premium over the future price. But that was not true as we came into December.

Mr. STEENERSON. What is it to-day?

Mr. GATES. I do not know, sir; I am not in touch with it.

Mr. STEENERSON. Well, in the few days past, when you did know—was the future higher than the cash?

Mr. GATES. No, sir; it was lower.

Mr. STEENERSON. Lower the last you knew about it?

Mr. GATES. Yes, sir.

Mr. STEENERSON. What is the most distant future?

Mr. GATES. May wheat.

Mr. STEENERSON. When you left Chicago you knew about what the price was, a few days ago. What was the difference?

Mr. GATES. It has been quoted for some time.

Mr. STEENERSON. Cash $2.08 Chicago and May wheat?

Mr. GATES. I would not like to give it for the record as to what the prices were in Chicago yesterday, because I do not know.

Mr. VOIGT. It was $1.74.

Mr. GATES. Do you know the cash price was $2.04? I do not want to testify without knowing definitely.

Mr. STEENERSON. At any rate, it is considerably lower, May wheat than cash wheat?

Mr. GATES. Yes, sir; I think that is a fair assumption.

Mr. STEENERSON. Do you think that a limitation on the future wheat sales would affect the cash price?

Mr. GATES. What kind of a limitation?

Mr. STEENERSON. You said that you had a rule that no man should offer to sell May wheat for less than the present cash price of wheat.

Mr. GATES. Oh, you mean there should be a limitation that wheat should never be traded in, either by buyer or seller, for future delivery at any price below the price prevailing for cash wheat on the day the trade is made; is that it?

Mr. STEENERSON. Yes.

Mr. GATES. I do not believe that that would work well at all. I do not believe that you can really affect conditions. You can disorganize the trade by putting in the limitations, but you can not make the machinery do any better work.

Mr. STEENERSON. I should judge that probably the experience you had with corn, that trading in future in wheat does affect the cash price of wheat.

Mr. GATES. There was evidence that it does not affect the price there—the cash corn was absolutely independent of the future.

Mr. STEENERSON. Yes; but in that case the future trading was limited to a certain price?

Mr. GATES. Yes.

Mr. STEENERSON. What do you think would have been the difference if there had been no limitation on the future price of corn?

Mr. GATES. I think that it would have gradually become nearer, sir.

Mr. STEENERSON. The cash price would have been the same as it was?

Mr. GATES. Yes; it would have gradually become nearer, sir.

Mr. STEENERSON. The cash price would have been the same as it was?

Mr. GATES. Yes.

Mr. STEENERSON. And continued from day to day?

Mr. GATES. Oh, yes; not absolutely the same, but similar.

Mr. STEENERSON. The restriction had no influence upon the cash price of corn in those cases?

Mr. GATES. Mr. Congressman, so far as I see it, the cash price corresponds to a thermometer, which is an actual register to-day; in so far as the future price affects speculation, in so far as it does, it reflects the attitude of a barometer, instead of a thermometer. It indicates the prospect—a probability, but not a certainty—because the barometer you can not always go by when it says it is going to be a fair day. You can not always depend on that estimate of future as being what it will actually be at that time, but you know that you can make your commitments based on that. You can buy such a contract and be sure of your filling your merchandising contract on that basis when it matures.

Mr. STEENERSON. As I understand it, there was a spread between the cash wheat and future wheat in Chicago up to the time that the cash wheat and the future wheat price in Minneapolis became identical, and that it was wiped out in Chicago also by shipping wheat from Minneapolis.

Mr. GATES. Some came in from Minneapolis and some came in from Canada; it was coming from the Northwest.

Mr. STEENERSON. The spread between future and cash was wiped out.

Mr. GATES. Between the future that was maturing. You see, one becomes the other, if you please.

Mr. STEENERSON. Oh, but the difference between the distant future remained the same, still lower?

Mr. GATES. Yes.

Mr. STEENERSON. Then, of course, when the future option matures it will have to be the same as cash?

Mr. GATES. Sure.

Mr. STEENERSON. But, suppose that it affected the unmatured futures also, when the spread between cash and future wheat was either wiped out or very nearly so.

Mr. GATES. I do not know as I can make it plain.

Mr. STEENERSON. Well, assume that there is a difference between May wheat and cash wheat to-day in Chicago?

Mr. GATES. Yes, sir.

Mr. STEENERSON. Of 15 cents a bushel. Supposing to-morrow that cash wheat and May wheat are the same, which might happen if they thought the scarcity of wheat in May would be great. Then the price of cash wheat would go up, would it not?

Mr. GATES. No; not necessarily go up; the price of the future might come up and the cash stay still. They get together, but there are different ways of getting together: sometimes each half way or part of the way; sometimes one comes all the way this way; sometimes the other comes down to this. You see what I mean?

Mr. STEENERSON. The man who has got a million bushels of wheat on hand, he can keep it by paying storage and interest and delivery next May on May options?

Mr. GATES. As a business proposition he would not do it. He will merchandise that wheat; it will go on in commerce.

Mr. STEENERSON. Is there any logical reason why the future option, say, is fixed, say, in April now it should be lower than the cash. There is no wheat thrashed between now and the 1st of April?

Mr. GATES. No; but it is expected there will be large quantities of Argentine wheat moved in commerce. A slackening of the export demand from here would be a retarding factor, would it not?

Mr. STEENERSON. I suppose so.

Mr. GATES. I am not in touch with the actual market conditions now, and I have not been watching the market intimately for two years; otherwise I would talk this with you. I was only wishing I had studied the market as it is now enough to describe the situation.

Mr. STEENERSON. I was going to ask one more question, and that is whether in your observation this spread between the cash and future wheat so that the future wheat is lower than the cash is the usual thing in your observation of the market for these years, or is it the rule that the future delivery is higher than the cash?

Mr. GATES. There is not any rule about it; a great deal of the time, however, the cash is at a discount under the future.

Mr. STEENERSON. Yes; because of the cost to store it and keep it.

Mr. GATES. And because there is usually a surplus in commercial hands to hedge in that way and carry it for a future demand. The amount in commercial hands is small to-day; I tried to point that out.

Mr. STEENERSON. Yes.

Mr. GATES. That is relatively small. I do not mean exceedingly small, but as this wheat was moving during the fall it went largely for export. Of course, in the last six months we have used up in the homes, we will say, 275,000,000 bushels of wheat to feed ourselves during the last six months. There have been 200,000,000 bushels moved for export since the 1st of July. The commercial stocks in this country are small. The ordinary stocks to carry us through in commercial hands——

Mr. STEENERSON. Let us account, in your theory, for the lower price of futures to-day than for cash, that the amount of wheat in store available for immediate use is small?

Mr. GATES. No; that is not it.

Mr. STEENERSON. What is it?

Mr. GATES. There is not the storage charge on it; there is not anybody simply carrying it as a matter of storing it. People are merchandising it as rapidly as they can or people are grinding it as fast as orders permit. But the speculative element, let us say, believe and is willing to commit itself in contracts, to the delivery of wheat at less because the speculative element feels that those commercial stocks are not unusually small, and there is more coming from the farm and that there will not be as great a demand for it as at present, and that Argentine's crop will supply the rest of the world, and then they have all sorts of ideas as to what may do it. I have not any definite information on that point.

Mr. STEENERSON. You have stated, I believe, that this future trading of all classes tends to stabilize the price?

Mr. GATES. Yes, sir; I say, in normal times, that has a tendency to stabilize prices.

Mr. STEENERSON. But do you refer then to cash price or to future price, also?

Mr. GATES. I refer to both, sir, because the future helps steady the cash as a usual thing.

Mr. STEENERSON. By stabilizing, it does necessarily steady it; it might reduce it. Stabilizing means to either prevent it going very high or very low, does it not?

Mr. GATES. That is my idea; yes.

Mr. STEENERSON. And that influence is asserted by the future trading, as you understand it?

Mr. GATES. I think that is a fair statement. I think that the chart of what it is done proves it, as compared with when it is not present as a factor.

Mr. STEENERSON. And the amount of future sales of wheat in this speculative market is simply dependent upon the judgment of the bidders, or those who use wheat and buv it; that is, if they think it is going to be a big crop, quotations from Argentine indicate that; they are bears, and try to——

Mr. GATES (interposing). You are trying to speak of them as a class, as though they all went together, one way or the other?

Mr. STEENERSON. I did not intend to do wrong. You can explain in your own way how it operates.

Mr. GATES. There is no such situation. There is always the conflict of opinion based on more or less definite information or judgment.

Mr. STEENERSON. Of course, I understand that there are bears and bulls on the board of trade all the time.

Mr. GATES. They are called that.

Mr. STEENERSON. But they may be more numerous on the bear side just at the present moment, because of the prospect of a big crop or big importations, and that has influenced on the cash side by stabilizing it.

Mr. GATES. I do not think you could say that it is now. I say this, Congressman: We are not back to normal yet; we are still under the influence of these British buying commissions. I have said all through that we can not expect to have the markets function normally while we still have abnormal conditions in the wheat market.

Mr. STEENERSON. Yes.

Mr. GATES. We have it more in the wheat market than we have in the oats and corn market.

Mr. STEENERSON. Yes.

Mr. GATES. Why? Because the influences that come in there are more interested in wheat, if you please, than they are in the other grains.

Mr. STEENERSON. They are largely artificial, such as the activity of private buying for export?

Mr. GATES. I think that is a material factor, sir.

Mr. STEENERSON. If the Governments of Europe, like France, England, Belgium, and Switzerland, stepped out of the wheat business and allowed private buyers to come in there it would be different?

Mr. GATES. We would hold a thanksgiving service.

Mr. STEENERSON. Yes.

Mr. GATES. You would see the situation remedy itself if left to itself.

Mr. STEENERSON. So far as hedging in wheat is concerned, there is very little competition when the Government continues to do business than private business?

Mr. GATES. Yes; now in and now out. For instance, you may recall that Senator Gronna, at a hearing before the Senate Committee on Agriculture about a year ago, found that the tremendous fluctuations in the prices of wheat were in the Northwest particularly.

Mr. STEENERSON. Yes, sir.

Mr. GATES. But that was true all over the country, as that chart will show. We did not any of us know just then what the trouble was. We found out later, in April. A man came back from the other side and said that at that particular time the British commission had decided to drop out of the market in this country for 30 days, hoping by so doing to influence the market in Argentine so that they might secure their Argentine supplies at a lower price than otherwise. They withdrew from our market. Our merchants, finding no buyers, some became panicky and wished to dispose of their wheat, and down went the price. There was no hedge, no protection. If hedged now it would not be full protection. I think I have explained that. We are not, under these conditions, going to get 100 per cent insurance. But the only protection at that time was the guaranteed minimum price, which was away down below the price of cash wheat, and we had fluctuations such as we never had in normal times; never had when we had the market open, excepting in war.

Mr. STEENERSON. You mentioned awhile ago that the British commission also ceased buying last July.

Mr. GATES. They did, sir.

Mr. STEENERSON. And they not only ceased buying American wheat but Canadian wheat?

Mr. GATES. Yes.

Mr. STEENERSON. And all wheat. Did that have a similar effect on the price?

Mr. GATES. I believe that it had a very material effect.

Mr. STEENERSON. What was it?

Mr. GATES. Let us see what the situation was as you approach that particular time: July 29 was the day they dropped out of the market?

Mr. STEENERSON. Yes.

Mr. GATES. Here is No. 2 hard winter wheat selling on the 22d at $2.75, $2.80; on the 23d, $2.85; 24th, $2.85; on the 27th, $2.75; on the 28th, $2.66 to $2.68; on the 29th, $2.58 to $2.64; on the 30th, $2.51 to $2.53; and on the 31st, $2.30.

Mr. STEENERSON. That is a 50-cent drop?

Mr. GATES. Yes; that is, for 1920.

Mr. STEENERSON. And this falling out of the market occurred just on the eve of the Canadian crop being moved, did it not? That crop was harvested in August?

Mr. GATES. I think it was later than that. These northwestern men can tell you.

Mr. STEENERSON. I live right on the border. It is probably the 15th of August to the 15th of September?

Mr. GATES. Yes, sir.

Mr. STEENERSON. So it was shortly before the Canadian crop was ready to move?

Mr. STEENERSON. And did it not resume when the Canadian crop was ready?

Mr. GATES. No.

Mr. STEENERSON. Have they resumed yet, do you know?

Mr. GATES. Yes; they began to buy some time along about the middle of November, I think, but not heavily.

Mr. STEENERSON. Do you not think that necessarily diverted the Canadian wheat, which had to be sold, to the United States instead of it going to their ordinary buyers? If they did not buy, they had to sell somewhere.

Mr. GATES. That may be. The Canadian wheat began to seek a market in this country; if there had been a market abroad, it would have gone abroad.

Mr. STEENERSON. That market was shut off?

Mr. GATES. Sure. It was cut off from that market, and that is why it came here.

Mr. STEENERSON. What tendency did that have in the price? Did that help?

Mr. GATES. I think that had a very decided tendency to affect the price downward.

Mr. STEENERSON. And that probably explains this scale of prices to which you have referred to there from $2.80?

Mr. GATES. I think that is a fair assumption.

Mr. STEENERSON. To $2.30?

Mr. GATES. Yes. I just want to say this: That the markets were very difficult to reestablish or attempt to reestablish under conditions in which the foreign Governments were still in, and I so stated two years ago before this committee. We said that we wanted an open market when the business could be returned to merchants on both sides.

Mr. STEENERSON. I understand.

Mr. GATES. But the provision of the guaranty bill was that it was to be the duty of the President to provide for and to permit the free and open market at the expiration of the guaranty period.

Mr. STEENERSON. Yes.

Mr. GATES. In other words, June 1; and I think that the wheat director felt that he had complied with that when he called a meeting of the trade and insisted that we must try and furnish these facilities.

Mr. STEENERSON. Yes. But you had a very difficult job to contend with these influences?

Mr. GATES. Yes, sir; we had.

Mr. STEENERSON. You have made a statement here about the rules of the exchange against those who seek to manipulate prices; that you are after the man who manipulates prices downward, and also occasionally where he manipulates them upward, or vice versa. You remember you spoke of that?

Mr. GATES. Yes.

Mr. STEENERSON. In those cases you have operating and private speculators?

Mr. GATES. Yes, sir.

Mr. STEENERSON. But in this case you had to contend with consolidated Government agencies of the greatest and richest countries in Europe?

Mr. GATES. We had, sir.

Mr. STEENERSON. And therefore you can not help this manipulation. Now, as a matter of fact, this appears very close to manipulation of markets, does it not?

Mr. GATES. It does. You may say, then, that it has not been through manipulation of the futures market. It has been, if at all, through a manipulation of the cash market by concentrated buyers. It has not been due in any respect to the opening of the futures market, nor did the opening of the futures market in any way assist in that.

Mr. STEENERSON. Of course, I understand that you are very friendly to the futures market. I get that from your very interesting essay on that. But might there not be some element of future trading in the operations of these foreign Governments? Do you not think, through brokers, if they are causing the sale of Canadian wheat at 50 or 60 cents delivery, they might make all future deliveries at a low price?

Mr. GATES. I doubt that very much.

Mr. STEENERSON. It would have been possible.

Mr. GATES. I do not believe there was such a thing in the market, and if the presence of such an influence were now in the futures market it would show, with the comparatively narrow trade, in a premium for March and May wheat rather than a discount as at present.

Mr. STEENERSON. You take it the chief sinner in this case is the cash instead of future?

Mr. GATES. The cash market is not a sinner. I think we can never expect our individual citizens to compete properly with Governments abroad. I do not believe we can do it.

Mr. STEENERSON. But you could counteract undue manipulations by private speculators?

Mr. GATES. We would try our best.

Mr. STEENERSON. And you have done it in the past?

Mr. GATES. Yes, sir.

Mr. STEENERSON. But this is a power beyond your control?

Mr. GATES. Yes, sir.

Mr. RIDDICK. You said you thought the pooling by foreign Governments was detrimental to our wheat raisers, by putting the price down. You said you would be very happy, instead of pooling interests, if individual buyers in England would be on our market.

Mr. GATES. If the English buying were done by the merchants; that is, without any governmental interference, on their individual judgment and needs rather than on orders through those same merchants, originating with the British Government.

Mr. STEENERSON. Do you understand, Mr. Gates, that this governmental pooling of interests is a permanent arrangement?

Mr. GATES. I do not; no.

Mr. RIDDICK. You think it is temporary?

Mr. GATES. I had expected that Europe would get in shape to dissolve her buying agencies before we were ready to take over the business from the wheat director. I thought Europe would get ready quicker than we would in that respect. But, while prices were very high, I think they felt that they still had to subsidize their bread supply, and that quite possibly their buying agencies were

continued for that reason. That is purely my personal opinion. I understand that the wheat director is to be here; that is, the man who was wheat director. I believe that he is much more familiar with that than I. I am not in the export trade. I have been really talking about something I should not have spoken about, because I have not first-hand information. I have simply given you my best opinion.

Mr. RIDDICK. It seems to me, just as a matter of my opinion, that the situation that has obtained has been so detrimental to our farmers that either the Congress or the State Department should learn if some treaty arrangements or other arrangements might be entered into to put a stop to this pooling of interests and buying of our wheat by the foreign Governments. What would be your judgment on that?

Mr. GATES. Just how it is to be remedied, I should say, is rather a matter for Congress than for me. I am not familiar enough with the situation to know just what the specific remedy is.

Mr. RIDDICK. As a matter of fact, it has brought about a very serious condition for our farmers, has it not?

Mr. GATES. I am inclined to think that it has been a material factor. I think that everyone who has studied the situation recognizes it is a material factor. Just to what extent it has been the factor, I do not know.

Mr. VOIGT. Let me ask your opinion on this question: It is said that the price is fixed in the main by supply and demand. Let us assume that the British Government bought 200,000,000 bushels of wheat in this country last year through this one agency. Assume that instead of the 200,000,000 bushels being bought through one centralized agency 200 merchants from the European continent had each bought 1,000,000 bushels during the same period. Would there have been a different price for wheat?

Mr. GATES. At the same time that the other people bought it?

Mr. VOIGT. Yes.

Mr. GATES. Yes; but individuals do not act that way.

Mr. VOIGT. There was a demand of 200,000,000 bushels?

Mr. GATES. Yes.

Mr. VOIGT. In your opinion, is there any difference whether this demand occurs with many buyers or one buyer, on the price?

Mr. GATES. Not if it is done in the same way.

Mr. VOIGT. Then, the fact that the buying by the British Government took place in such a quantity on the part of one buyer was not in itself detrimental?

Mr. GATES. I do not so consider it; that is, if it had been scattered over the period uniformly. The big buying was during May, June, and July; and then it was not present for three months.

Mr. VOIGT. The detriment, as you see it, is in the fact that they did not buy at the usual time?

Mr. GATES. I say that it made an abnormal demand at one time and an abnormal absence of demand at another time, as compared with what would have been proper or usual if the merchants had themselves been handling the orders. Isn't that a reasonable answer?

Mr. RIDDICK. If the merchants come in, bought and competed with each other, would not that have stimulated the price as much as the Government coming in now and then and placing a large order?

Mr. GATES. It would have tended to stabilize price. I should be inclined to think that competition of any kind is a stimulant and deterrent. Competition itself will cause a decline, oftentimes, that one single seller will not cause.

The CHAIRMAN. We are very grateful to you, Mr. Gates.

Mr. GATES. I simply want to thank you gentlemen for listening to me so long.

(Thereupon, at 6.50 o'clock, p. m., the committee took a recess until 9.30 o'clock to-morrow, Friday, January 14, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Friday, January 14, 1921.

The committee met at 9.30 o'clock a. m., pursuant to adjournment on yesterday, Hon. Gilbert N. Haugen (chairman), presiding.

The CHAIRMAN. We will hear from you, Mr. Barteau.

STATEMENT OF MR. SID D. BARTEAU, REPRESENTING FARMER'S ELEVATOR CO., ZUMBROTA, MINN.

Mr. BARTEAU. Mr. Chairman, I am from a farmers' elevator company in southern Minnesota, and the only thing we are interested in is the hedging. So far as gambling is concerned, we would like to have you eliminate that. We have a capital of $3,900, and we have a membership of 140 farmers.

The CHAIRMAN. How many elevators have you?

Mr. BARTEAU. We have two elevators in one town. We go to our local bank, which has a capital of $25,000 and surplus, and we can borrow $4,800. We go to the commission firm that we ship our grain to and tell them we want $5,000 to-day, and the next day we go to them again and tell them we want $5,000 more. They say, "Have you got your grain hedged?" "Yes." "Draw on us for what you want."

The minute you eliminate hedging, we will not be able to get that money, and we do not know how we would do business. Of course, that with the big line elevators we could do business, but the farmers who buy grain on a commission of 2 cents a bushel would be out of it, and the big elevators would be it.

You take our wool this year. We handled last year 25,000 pounds of wool. This year we did not dare to buy wool; there was no market for it. Some farmers have pooled their wool with us. We have not been able to get a market any time this summer that was anywhere satisfactory to us. We have still got the wool, and they have not got any money for it.

Mr. MCLAUGHLIN of Michigan. You evidently believe if you had no opportunity to hedge, if these exchanges did not exist, the grain market would be or might be in the same condition that the wool market is in?

Mr. BARTEAU. I do not know why it would not be. We would be at the mercy of people who were buying it, and how would we protect ourselves? You take the market. I think it commenced on the 1st of November to go down, dropping 10 or 15 or 20 cents a day. On what grain we had to take we had to protect ourselves every day or we would have lost a lot of money.

We had a meeting of our directors Tuesday morning, at 10 o'clock. There were 8 of the 9 there. I told them what I was coming down here for, and it was perfectly agreeable to them.

Mr. McLAUGHLIN of Michigan. You buy and sell on the exchange, then, only to cover your own transactions?

Mr. BARTEAU. That is all we do; yes, sir. Supposing we buy 800 bushels of wheat in a day; we would sell a thousand bushels for the next morning on the opening.

Mr. McLAUGHLIN of Michigan. How often are you called upon and find it necessary to carry your hedge transaction clear through to delivery?

Mr. BARTEAU. We never do that; do not intend to do it. We ship our wheat mostly to local mills.

Mr. McLAUGHLIN of Michigan. You are the exception. The rest of them always do, they tell us?

Mr. BARTEAU. No, sir; we do not intend to carry it through at all. We sell that option hedge in Minneapolis, and if we can get the local mill to take it without any commission we save that, from 1 cent up to 2½ cents a bushel. As soon as the wheat is sold on the market, we buy that hedge back, and that deal is closed. But we are protected until we can get out onto the market.

Of course, you all know the last three years it has been almost impossible lots of times to get cars. We would get our elevator as full practically so that we could not work. We handle 200,000 bushels, and we only have 60,000 capacity in the two elevators. But that takes more money than our banks can furnish us to carry that.

Mr. McLAUGHLIN of Michigan. In carrying on your business in that way, do you consider that you are speculating?

Mr. BARTEAU. We consider it is absolutely no speculation; it is a cinch, a profit.

Mr. McLAUGHLIN of Michigan. Do you consider that you are gambling?

Mr. BARTEAU. No, sir; we are not gambling; we are simply eliminating gambling when we sell that hedge, if we have got the wheat, in our opinion.

Mr. McLAUGHLIN of Michigan. But you do not contemplate delivery in any case that you hedge?

Mr. BARTEAU. No, sir.

Mr. McLAUGHLIN of Michigan. I think I understand how you carry on your business. But I do not see why it is not speculation or gambling. I do not see why those who speak about it here are so particular to say it is not speculation or gambling. You are not dealing in the real article at all?

Mr. BARTEAU. In our case, do you think it is a gamble?

Mr. McLAUGHLIN of Michigan. You may do it so skillfully that the risk is eliminated to a large extent, but it does not make any difference to me what it is. I should come to the conclusion that it does not make any difference what you call the transaction, unless it was either justifiable or necessary, and it is not. I do not care a continental what you call it.

Mr. BARTEAU. I can not understand how there is any gamble on my part at all. I have simply bought a thousand bushels of wheat and I sold. The man on the exchange to whom I sold may be gam-

bling—I do not know anything about that; but he has put up to protect me.

The CHAIRMAN. I think his operation is altogether different from others. He sells the hedge, and the fellow who takes the hedge is a speculator.

Mr. MCLAUGHLIN of Michigan. He does not sell anything.

Mr. BARTEAU. I certainly do. If I did not buy that hedge back before the option expired, I would have to deliver.

Mr. MCLAUGHLIN of Michigan. You do not have to do it, and you know it. As far as I can see, it is simply a bet on what the price will be at the time of delivery.

Mr. BARTEAU. Suppose I did not protect myself; would it not be gambling on my part?

Mr. MCLAUGHLIN of Michigan. Yes.

Mr. BARTEAU. If I bought a thousand bushels of wheat and carried it two weeks away the market was going in November, I would have lost $500 probably on every thousand bushels I would have bought.

Mr. MCLAUGHLIN of Michigan. I guess that is right.

Mr. BARTEAU. Yes, sir; and then I would be gambling. This way I was not gambling. Of course, that is the way I was brought up to look at it.

The CHAIRMAN. We are grateful to you, sir.

Mr. BARTEAU. Thank you very much.

STATEMENT OF MR. ROBERT McDOUGAL, REPRESENTING CHICAGO BOARD OF TRADE, POSTAL TELEGRAPH BUILDING, CHICAGO, ILL.

Mr. MCDOUGAL. Mr. Chairman and gentlemen, the few points I wish to bring up are not closely related to each other. They are nevertheless, I think, related to each other in a substantial way to a full understanding of the subject matter which is before you for discussion and determination.

Point 1. The fundamental article of the organic law of the Chicago Board of Trade is its preamble. This preamble reads as follows:

> To maintain a commercial exchange; to promote uniformity in the customs and usages of merchants; to inculcate principles of justice and equity in trade; to facilitate the speedy adjustment of business disputes; to acquire and disseminate valuable commercial and economic information; and generally, to secure to its members the benefits of cooperation in the furtherance of their legitimate pursuits.

Point 2 is in supplementation and reenforcement of Mr. Gates's testimony of yesterday.

The immediate as well as the final aspect of the German laws of 1896 repressing the buying and selling of grain, as well as other restrictions, eliminating a free market for grain, were a great disappointment to the whole country as well as the promulgators of the law. The greatest sufferers were the farmers and finally they were the greatest agitators to have the law abolished.

The immediate effect of the law was the impossibility of the buyers—the grain merchants could not afford to fill their warehouses and keep the usual reserves for later wants, as they had no protection in the way of future sales should the market decline. Then, again, the miller was prevented from buying except from hand to mouth for the same reasons. The fluctuations became very wide.

Previous to this legislation everybody knew the value of every grain product, whereas after its enactment it became a matter of bargaining on each trade.

As long as future trading was permitted every country newspaper through its columns informed the farmer of the value of his products. Without an open market the farmer was ignorant of what his products were worth and was taken advantage of where opportunities permitted and dealers were unscrupulous enough to do so.

Furthermore, on account of the increased risk in either buying or selling, the profits of all middlemen were increased in proportion—all at the expense of the farm products.

Germany was forced to repeal this law a few years later and dealers were conceded the right to resume buying and selling for future delivery.

Citations of authority: (*a*) The annals of the American Academy of Political and Social Science, volume 38, pages 135–141 (191[illegible]); (*b*) the Functions of Legitimate Grain Exchanges, pages 52–64–147 (published in Chicago).

Point 3. The war will go down as the greatest destabilizer of price levels that the world has known. The shrinkage of the farmer's inventory in respect to grain prices has been severe and burdensome, but other interests have suffered as much, perhaps more. The farmer has enjoyed his share of war period prosperity and has also probably done his full share of speculating in the past five years. Agriculture has been infected by the inflation germ as seriously as were industry and commerce. Holders of securities have suffered more than the farmers.

While the farmer suffered the first and almost the worst effects of deflation they may be sure that the burdens and distress they bear are borne by others and that the equalization process will run its full course.

Two of the big packers have issued their annual reports for the 1920 fiscal year, one of them showing the common stock dividend not one-half earned, and the other not nearly enough to take care of its preferred dividend. The two leading mail-order houses are no better off, and their sales this winter are 30 to 40 per cent less than a year ago. The farm machinery concerns are operating at 80 per cent of their capacity in the Chicago district, although their business has been cut into, because they feel sure of a fair volume of buying next spring and good volume next autumn, if the crops turn out well. Steel corporation plants are also operating 80 per cent, because they look into the future confidently, particularly those branches which deal directly with rural consumers.

The wholesale grocery trade has lost most of its profits of the last two or three years. The men's fine clothing trade, as reported in the large cities, shows a record of high sales but no profits for the past year. Reductions in all lines are being made and more are coming. The increase in labor efficiency is already notable. Every class of our population is taking its medicine. Some commodities had as perpendicular drop as cereals did. Forget silk as an oriental product and consider sugar which dropped from 31 to below 9 cents a pound—a sheer drop of 59 per cent. The general decline in commodity prices exceeds any ever known in the country. The index number of the Federal Government will record this. Retailers are now

suffering. Chicago leading haberdashers are closing out their entire stock of neckwear at 50 to 75 per cent reduction.

Farmers are better off in this matter than manufacturers and merchants, who must find or create their markets. The farmer has a continuous open world market in the grain exchanges, to close or repress these grain exchanges would be disastrous.

4. You heard yesterday the Supreme Court of the United States holds future contracts on the Chicago Board of Trade legal, not gambling contracts; it sustains the board's property right in quotations and enjoins their use in bucket shops; it declares a set-off has all the effect of delivery and in legal effect is a delivery.

The Supreme Court of Illinois has said:

Legitimate transactions on the board of trade are of the utmost importance in commerce. Such contracts whether for immediate or future delivery are valid in law and receive its sanction and all the support that can be given them.

5. You heard yesterday that a bucket shop is a place for the registration of bets. The board of trade has spent over $400,000 in its legal fight against illegal traffic.

6. Herbert C. Hoover says the Chicago Board of Trade is the most economical and efficient agency for the marketing of foodstuffs found anywhere in the world.

Conclusion and last point: The enactment into law of any bill causing the tearing down or crippling of the present market system in futures would be the most serious blow agriculture has ever received.

Future contracts and cash business, car lots or cargo lots are organically related and indispensable to each other. The following is extracted from the leading financial paper of the United States of issue January 11, 1921:

A free and open market in futures is a necessity which the manufacturers of the world recognize. The foreign miller or cotton spinner must be able, in order to guard himslef against unforeseen natural contingencies like boll weevil and bad weather, to buy his raw material before it is harvested or even planted. There must be somebody willing to sell him that raw material with a guaranty that it will be delivered when the crop is made. If American produce exchanges will not give this guaranty the produce exchanges of Liverpool, London, and Montreal will perform this necessary service to the foreign manufacturer.

The only effect of destroying such a free market here would be to drive hundreds of millions of dollars of legitimate business out of the country. The reaction on the farmer would be a calamity far worse than any depression of prices at present existing. The world market for wheat would dictate the price. Only dealers here with immense capital could afford to handle the farmers' wheat, and then only at a price which would amply protect them, which would be many cents below the middle price in the open market at Mark Lane, London, or in Liverpool or Montreal.

It is a temptation in some minds to let Congress go ahead with this legislation and explain it to the farmer afterwards. But the incalculable losses involved, the expatriation of hundreds of millions of tax-paying business at a time when we need every penny which can be collected in taxes even for the most economical adminisirative expenditure, are too serious to be so despairingly dismissed. But such an act would be like a farmer burning down his barn to destroy the rats, or like the immortal Sam Weller, who instanced the gentleman who cut off a little boy's head to cure him of sneezing.

Gentlemen, I heard day before yesterday the testimony of three men—one from Iowa, one from Indiana, and one from South Dakota—to the effect that without the present future markets they could not do business. One of the three declared he would voluntarily get out of the grain business if future trading was done away

with. These three men, from widely separated parts of the grain belt, unknown, I suppose, to each other, and without advance knowledge of the others' evidence, gave common voice to a major and significant feature of a law of economics, and I can not but feel that it was similar reasoning in the minds of the United States Supreme Court which contributed to its famous decision in 1905, sustaining board of trade contracts in futures as legal and useful. This decision answers certain inquiries on specific points made by the members of this committee the past few days, and does it with simplicity, precision, and authority.

Mr. McLAUGHLIN of Michigan. I have not read that decision of the Supreme Court. Since you speak of it, I should read it with a good deal of interest. I would like to have the citation, so I can look it up.

Mr. McDOUGAL. I have it right here. I am going to read from it and leave this with you.

Mr. McLAUGHLIN of Michigan. I was wondering how far the Supreme Court went beyond determining the question of whether or not these transactions are legal. You say they determined the transactions to be "legal and useful." How far did they go in saying that the transactions were "useful?"

Mr. McDOUGAL. If you will indulge me, a moment, I will read——

Mr. McLAUGHLIN of Michigan (interposing). In your own time, of course.

Mr. McDOUGAL. Certainly. Therefore, on account of its enormous weight in this whole discussion, I shall, with your indulgence, read the decision. It is not long and I respectfully request its insertion in the record.

The CHAIRMAN. How long is it?

Mr. McDOUGAL. Eight or 10 pages. It is in print.

The CHAIRMAN. What is the pleasure of the committee?

Mr. HULINGS. Have we got to read all of this material over when printed? If we have, I would be in favor of keeping it out. We have more in now than we will ever read.

Mr. TINCHER. I think it good practice to insert in the record the citation. I doubt the practicability of inserting the whole decision; however, I have no objection.

Mr. McLAUGHLIN of Michigan. If the witness is going to read it, then it will not be necessary to insert it again.

The CHAIRMAN. I would insert it.

Mr. McLAUGHLIN. I think it will be enough, if you give us a citation.

The CHAIRMAN. Is that satisfactory, Mr. McDougal?

Mr. McDOUGAL. I will make it so, Mr. Chairman. I would rather have it in the record, and I think it is the foundation that gives security and permanence to the whole structure of future trading.

Mr. RIDDICK. It all bears on this subject, does it?

Mr. McDOUGAL. Several paragraphs I consider bear directly on it.

Mr. HULINGS. Is it the appellate court?

Mr. McDOUGAL. No, sir; in the United States Supreme Court. The immediate occasion of the verdict was our fighting bucket shops. I am at the end of my remarks. If you will allow me, I will go ahead and read what I was referring to, because it does answer some inquiries I have heard around this table that, prior to Mr. Gate's presentation of yesterday, have not been answered fully, if at all. This

is practically the conclusion of my statement now, except that I would like to quote from this a few paragraphs.

The CHAIRMAN. Quote them, certainly.

Mr. McDOUGAL (reading):

SUPREME COURT OF THE UNITED STATES, OCTOBER TERM, 1904.

No. 224. The Board of Trade of the City of Chicago, petitioner, *v.* Christie Grain & Stock Co. and C. C. Christie; on writ of certiorari to the United States Circuit Court of Appeals for the Eighth Circuit. No. 280. The L. A. Kinsey Co. et al., petitioners, *v.* Board of Trade of the City of Chicago; on writ of certiorari to the United States Circuit Court of Appeals for the Seventh Circuit. (May 8, 1905.)

Mr. Justice Holmes delivered the opinion of the court.

These are two bills in equity brought by the Chicago Board of Trade to enjoin the principal defendants from using and distributing the continuous quotations of prices on sales of grain and provisions for future delivery, which are collected by the plaintiff and which can not be obtained by the defendant except through a known breach of the confidential terms on which the plaintiff communicates them. It is sufficient for the purposes of decision to state the facts without reciting the pleadings in detail. The plaintiff was incorporated by special charter of the State of Illinois on February 19, 1859. The charter incorporated an existing board of trade, and there seems to be no reason to doubt, as indeed is alleged by the Christie Grain & Stock Co., that it then managed its chamber of commerce substantially as it has since.

The main feature of its management is that it maintains an exchange hall for the exclusive use of its members, which now has become one of the great grain and provision markets of the world. Three separated portions of this hall are known, respectively, as the wheat pit, the corn pit, and the provision pit. In these pits the members make sales and purchases exclusively for future delivery, the members dealing always as principals between themselves, and being bound practically, at least, as principals to those who employ them when they are acting on their own behalf.

The quotation of the prices continuously offered and accepted in these pits during business hours are collected at the plaintiff's expense and handed to the telegraph companies, which have their instruments close at hand, and by the latter are sent to a great number of offices. The telegraph companies all receive the quotations under a contract not to furnish them to any bucket shop or place where they are used as a basis for bets or illegal contracts. To that end they agree to submit applications to the board of trade for investigation, and to require the applicant, if satisfactory, to make a contract with the telegraph company, and the board of trade, which, if observed, confines the information within a circle of persons all contracting with the board of trade. The principal defendants get and publish these quotations in some way not disclosed.

It is said not to be proved that they get them wrongfully, even if the plaintiff has the rights which it claims. But as the defendants do not get them from the telegraph companies authorized to distribute them, have declined to sign the above-mentioned contracts, and deny the plaintiff's rights altogether, it is a reasonable conclusion that they get, and intend to get, their knowledge in a way which is wrongful unless their contention is maintained.

It is alleged in the bills that the principal defendants keep bucket shops, and the plaintiff's proof on that point fails except so far as their refusal to sign the usual contracts may lead to an inference, but if the plaintiff has the rights which it alleges the failure is immaterial. The main defense is this. It is said that the plaintiff itself keeps the greatest of bucket shops, in the sense of an Illinois statute of June 6, 1887, that is, places wherein is permitted the pretended buying and selling of grain, etc., without any intention of receiving and paying for the property so bought, or of delivering the property so sold. On this ground it is contended that if under other circumstances there could be property in the quotations, which hardly is admitted, the subject matter is so infected with the plaintiff's own illegal conduct that it is caput lupinum, and may be carried off by anyone at will.

It appears that in not less than three-quarters of the transactions in the grain pit there is no physical handling over of any grain, but that there is a settlement either by the direct method, so called, or by what is known as ringing up. The direct method consists simply in setting of contracts to buy wheat of a certain amount at a certain time, against contracts to sell a like amount at the same time, and paying the difference of price in cash, at the end of the business day. The ring settlement is reached by a comparison of books among the clerks of the members buying and

selling in the pit, and picking out a series of transactions which begins and ends with dealings which can be set against each other by eliminating those between; as, if A has sold to B 5,000 bushels of May wheat, and B has sold the same amount to C, and C to D, and D to A. Substituting D for B by novation, A's sale can be set against his purchase, on simply paying the difference in price. The Circuit Court of Appeals for the Eighth Circuit took the defendant's view of these facts and ordered the bill to be dismissed. (125 Fed. Rep., 161.) The Circuit Court of Appeals for the Seventh Circuit declined to follow this decision and granted an injunction as prayed. (130 Fed. Rep., 507.) Thereupon writs of certiorari were granted by this court and both cases are here.

As has appeared, the plaintiff's chamber of commerce is, in the first place, a great market, where, through its 1,800 members, is transacted a large part of the grain and provision business of the world. Of course, in a modern market contracts are not confined to sales for immediate delivery. People will endeavor to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophes, equalizing prices, and providing for periods of want. It is true that the success of the strong induces imitation by the weak, and that incompetent persons bring themselves to ruin by undertaking to speculate in their turn. But legislatures and courts generally have recognized that the natural evolutions of a complex society are to be touched only with a very cautious hand, and that such course attempts at a remedy for the waste incident to every social function as a simple prohibition and laws to stop its being are harmful and vain. This court has upheld sales of stock for future delivery and the substitution of parties provided for by the rules of the Chicago Stock Exchange. (Clews v. Jamieson, 182 U. S., 461.)

When the Chicago Board of Trade was incorporated, we can not doubt that it was expected to afford a market for future as well as present sales, with the necessary incidents of such a market, and while the State of Illinois allows that charter to stand, we can not believe that the pits, merely as places where future sales are made, are forbidden by the law. But again, the contracts made in the pits are contracts between the members. We must suppose that from the beginning as now, if a member had a contract with another member to buy a certain amount of wheat at a certain time and another to sell the same amount at the same time, it would be deemed unnecessary to exchange warehouse receipts. We must suppose that then as now, a settlement would be made by the payment of differences, after the analogy of a clearing house. This naturally would take place no less that the contracts were made in good faith for actual delivery, since the result of actual delivery would be to leave the parties just where they were before. Set-off has all the effects of delivery. The ring settlement is simply a more complex case of the same kind. These settlements would be frequent, as the number of persons buying and selling was comparatively small.

The fact that contracts are satisfied in this way by set-off and the payment of differences detracts in no degree from the good faith of the parties, and if the parties know when to make such contracts that they are very likely to have a change to satisfy them in that way and intend to make use of it, that fact is perfectly consistent with a serious business purpose and an intent that the contract shall mean what it says. There is no doubt, from the rules of the board of trade or the evidence, that the contracts made between the members are intended and supposed to be binding in manner and form as they are made. There is no doubt that a large part of those contracts is made for serious business purposes. Hedging, for instance, as it is called, is a means by which collectors and exporters of grain or other products, and manufacturers who make contracts in advance for the sale of their goods, secure themselves against the fluctuations of the market by countercontracts for the purchase or sale, as the case may be, of an equal quantity of the product or of the material of the manufacture. It is none the less a serious business contract for a legitimate and useful purpose that it may be offset before the time of delivery in case delivery should not be needed or desired.

Purchases made with the understanding that the contract will be settled by paying the difference between the contract and the market price at a certain time (Embrey v. Jemison, 131 U. S., 336; Weare Commission Co. v. People, 209 Ill., 528) stand on different ground from purchases made merely with the expectation thay they will be satisfied by set-off. If the latter might fall within the statute of Illinois, we would not be the first to decide that they did when the object was self-protection in business and not merely a speculation entered into for its own sake. It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in this country are to be regarded as mere wagers or as "pretended" buying or selling, without any intention of receiving and paying for the property bought, or of delivering the property sold, within the meaning of the Illinois act. Such a view seems to us hardly consistent with the admitted fact that the quotations

of prices from the market are of the utmost importance to the business world, and not least to the farmers; so important, indeed, that it is argued here and has been held in Illinois that the quotations are clothed with a public use. It seems to us hardly consistent with the obvious purposes of the plaintiff's charter, or indeed with the words of the statute invoked. The sales in the pits are not pretended, but, as we have said, are meant and supposed to be binding. A set-off is in legal effect a delivery. We speak only of the contracts made in the pits, because in them the members are principals. The subsidiary rights of their employers where the members buy as brokers we think it unnecessary to discuss.

In the view which we take, the proportion of the dealings in the pit which are settled in this way throws no light on the question of the proportion of serious dealings for legitimate business purposes to those which fairly can be classed as wagers or pretended contracts. No more does the fact that the contracts thus disposed of call for many times the total receipts of grain in Chicago. The fact that they can be and are set-off sufficiently explains the possibility, which is no more wonderful than the enormous disproportion between the currency of the country and contracts for the payment of money, many of which in like manner are set-off in clearing houses without anyone dreaming that they are not paid, and for the rest of which the same maney suffices in succession, the less being needed the more rapid the circulation is.

But suppose that the board of trade does keep a place where pretended and unlawful buying and selling are permitted, which as yet the Supreme Court of Illinois, we believe, has been careful not to intimate, it does not follow that it should not be protected in this suit. The question whether it should be involved several elements which we shall take up in turn.

In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's. Compare Bleistein *v.* Donaldson Lithographing Co. (188 U. S. 239, 249, 250). The plaintiff does not lose its rights by communicating the result to persons, even if many in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by including a breach of trust and using knowledge obtained by such a breach. (Exchange Telegraph Co. *v.* Gregory & Co. (1896) 1 Q. B. D., 147; F. W. Dodge Co. *v.* Construction Information Co., 183 Mass. 62; Board of Trade *v.* C. B. Thompson Commission Co., 103 Fed. Rep. 902; Board of Trade *v.* Haddon-Krull Co., 109 Fed. Rep. 705; National Telegraph News Co. *v.* Western Union Telegraph Co., 119 Fed. Rep. 294; Illinois Commission Co. *v.* Cleveland Telegraph Co., 119 Fed. Rep. 301.)

The publications insisted on in some of the arguments were publications in breach of contract, and do not affect the plaintiff's rights. Time is of the essence in matters like this, and it fairly may be said that, if the contracts with the plaintiff are kept, the information will not become public property until the plaintiff has gained his reward. A priority of a few minutes probably is enough.

If then the plaintiff's collection of information is otherwise entitled to protection, it does not cease to be so, even if it is information concerning illegal acts. The statistics of crime are property to the same extent as any other statistics, even if collected by a criminal who furnishes some of the data. The Supreme Court of Illinois has recognized in the fullest terms the value and necessity of the knowledge which the plaintiffs control. It must have known, even if it did not have the evidence before it, as to which we can not tell from the report, what was the course of dealing on the exchange. Yet it was so far from suggesting that the plaintiff's work was unmeritorious that it held it clothed with a public use. (New York & Chicago Grain & Stock Exchange *v.* Board of Trade, 127 Ill. 153.)

The defendants lay hold of the declaration in the case last cited and say, with doubtful consistency, that this information is of such importance that it is clothed with a public use, and that, therefore, they are entitled to get and use it. In the case referred to it was held that the plaintiff, which had been receiving the continuous quotations, was entitled still to receive them on paying for them and submitting to all reasonable requirements in relation to the same. Perhaps the right of the plaintiff would have been more obvious if it had demanded an opportunity on reasonable conditions of collecting the information for itself especially if the legislature had seen fit to provide by law for its doing so. But it is not necessary to consider whether we are bound by that decision, or, if not, should follow it, since in these cases the claim is not qualified by submission to reasonable rules or an offer of payment. It is a claim of independent rights and a denial that the plaintiff has any right at all. The Supreme Court of Illinois gave no sanction to such a claim as that.

Finally it is urged that the contracts with the telegraph companies violate the act of July 2, 1890 (c. 647, 26 Stat., 209). The short answer is that the contracts are not relied on as a cause of action. They are stated simply to show that the only communication of its collected facts by the plaintiff is a confidential communication, and does not destroy the plaintiff's rights. But so far as these contracts limit the communication of what the plaintiff might have refrained from communicating to anyone, there is no monopoly or attempt at monopoly, and no contract in restraint of trade, either under the statute or at common law. (E. Bement & Sons v. National Harrow Co., 186 U. S. 70; Fowle *v.* Park, 131 U. S. 88; Elliman *v.* Carrington, (1901) 2 Ch. 275.) It is argued that the true purpose is to exclude all persons who do not deal through members of the board of trade. Whether there is anything in the law to hinder these regulations being made with that intent we shall not consider, as we do not regard such a general scheme as shown by the contracts or proved. A scheme to exclude bucket shops is shown and proclaimed, no doubt—and the defendants, with their contention as to the plaintiff, call this an attempt at a monopoly in bucket shops. But it is simply a restraint on the acquisition for illegal purposes of the fruits of the plaintiff's work. (Central Stock & Grain Exchange *v.* Board of Trade, 196 Ill. 396.) We are of opinion that the plaintiff is entitled to an injunction as prayed.

That is the decision, Mr. Chairman and gentlemen, and it holds that future trades on the Board of Trade are not gambling transactions, and it sustains the Board of Trade's property rights in its quotations and it enjoins their use in bucket shops and, as represented here, the bucket shops now are almost extinct. They are a place for the registration of bets, and not in any sense a market.

Mr. HULINGS. How often do you have settlement days? Does each broker put in his sheet every day?

Mr. McDOUGAL. Yes, sir:

Mr. HULINGS. To the clearing house?

Mr. McDOUGAL. Yes, sir.

Mr. HULINGS. If he is long so much and short 1,000 bushels less, does he send in with his sheet a certificate for a thousand bushels?

Mr. McDOUGAL. General, if you will allow me, the war work took me out of my business three years, and I have not been able to get back into the grain business, and I would rather you would make these questions subject of interrogatory from the preceding witness, of yesterday, or either of my colleagues who follow me.

Mr. HULINGS. It has been claimed here by witnesses that it is possible to require the delivery in a day, that these orders going in from these warehouses go in on the floor of the exchange to a broker, and that broker executes that order. Suppose the man who buys that sale wants the grain himself. How is he going to carry it?

Mr. McDOUGAL. He just waits for the delivery month and delivery is made.

Mr. HULINGS. But suppose the broker says, "I was only an agent, and my principal is away back in the hills some place." He only acts as agent and is not responsible except to give up the name of his principal, is he? Under your laws of the exchange you may require him to quit the brokerage business or assume that responsibility. But I am speaking now as a matter of law.

Mr. McDOUGAL. General, all grain contracts in futures being uniform as to quantity, may be substituted one for the other, and members of the board acting as agents become principals.

Mr. HULINGS. They may become principals through the local rule of your exchange, as amongst themselves.

Mr. McDOUGAL. The rules have always been found, however, to cover any exigencies such as you mentioned.

Mr. HULINGS. I was asking you this: Suppose a man wanted the wheat and the broker did not have it to deliver, and he should have

to go into court to get the actual delivery of that wheat; would he not go after the broker as the broker or would he go after the broker's principal that gave the order to the broker?

Mr. McDougal. He would go after the broker's employer, or the member of the firm of which he was. But the rules of the board cover all that, General. I can not remember any cases going into court. I can remember one man who had in the neighborhood of 20,000,000 bushels cash wheat bought, and he accepted delivery of all of it, and we shipped it out for him.

I might say, if you will allow me, gentlemen, that my principal business for many years has been representing exporters, and during the war foreign governments; that we made free and very large use of the futures as a foundation for those cash contracts, and on those points I think I can enlighten you.

Mr. Hulings. The point I am making is this: A man sitting back in the brush some place gives an order through a line house to a broker on the floor. The suggestion has been made that that was a real transaction and contemplated the delivery of the wheat itself. While I have been of the opinion that probably in 999 cases out of a thousand there was not any intention to deliver anything or receive anything at all, but that man was the principal. Now, the question was, when he sent that order in, if he did not mean to deliver anything nor to receive anything, then his transaction so far as he was concerned, became a mere gamble in quotations on the market?

Mr. McDougal. No, sir. Your friend may have gone in there with every intention in the world to be a gambler; but he can not be a gambler. He participates in a contract enforceable in law.

Mr. Hulings. That is the very point. You can not go after him, if you must proceed against his broker—if it is the broker's contract—he is making no contract, and he has no intention in his mind that he is making a contract to deliver and get anything.

Mr. McDougal. But he can be a gambler at heart, and have every intent to make a gamble, but he can not make a board of trade contract and be one, unless he deliberately goes off in a corner with another party to the contract, and they agree that they have no intention of making delivery.

Mr. Hulings. But, so far as he is concerned, the board of trade do not know he exists; do not know anything about his intentions. There are a lot of fellows there who want to get as many orders as they can, because that means as many commissions as they can get, and they take these orders, and they encourage what is practically bucket shops, although they say now they send these orders in by wire on the floor of the exchange, and they are actually executed there. But that man does not have any intention of doing anything at all except gambling on that market quotation.

Mr. McDougal. I am admitting he may have only an intent to gamble, but he does not gamble under our rules or practices.

Mr. Hulings. Under your rulings and practices, the broker himself takes his place and so far as he is concerned gets out of it. The board does not know anything about the existence of that fellow. He is not amenable to any rules on your exchange.

Mr. McDougal. I have had the buying of enormous quantities of future contracts, and it has all worked like clockwork, and the foundation of our business is future trades. It is the currency of the grain

business. We have had contracts for as high as a million and a half bushels of spring wheat to be shipped to Italy.

Mr. HULINGS. I have no controversy about that. I believe that futures are all right and perfectly legitimate for the board of trade. I quite agree with you so far as that is concerned. But I think that nine-tenths of the work that is done is not performing any useful function of trade at all, any more than a lot of fellows playing the ponies would be an important function in improving the breed of horses.

Mr. McDOUGAL. I know, but would not you consider a service of this speculator to which you allude, having his order executed in the pit to buy a thousand bushels of wheat for December delivery assuming the risk of ownership?

Mr. HULINGS. No, I do not, because that broker never collects anything. The broker will not take an order unless he gets his margin. He does not care anything about that man, whether he is unable to take the wheat or pay for it, or anything about it. He just gets his margin or his correspondent gets it for him, and he executes the order. How are you going to separate that kind of thing from the real, necessary dealing in futures?

Mr. McDOUGAL. I do not know.

Mr. McLAUGHLIN of Michigan. The idea is to enable one always to be able to deal who deals legitimately, and from your standpoint there must be some one to take the other end of the transaction. He may be simply a speculator, but he is always there, and it always gives an opportunity for carrying on the regular trading of the exchange. May I ask a question now?

Mr. McDOUGAL. Certainly, Mr. McLaughlin.

Mr. McLAUGHLIN of Michigan. Many of the witnesses who take the view you take on this matter, have said that is it generally recognized that there are evils and abuses and practices which ought to be corrected, perhaps which can be corrected by law. Some suggest that they can be corrected by the rules of the exchanges. When we ask these gentlemen to state what those evils and abuses are, very few of them are able to tell us anything about it, and not one has been able to tell us how any of them can be corrected. Perhaps you can tell us?

Mr. McDOUGAL. Well, if you will cite what particular abuse you have in mind——

Mr. McLAUGHLIN of Michigan. You are right there; I do not know.

Mr. McDOUGAL. We have a board of directors and a code of rules, which are competent to take care of most everything that comes along, and I do not know, Mr. McLaughlin, any way to answer except to say that the board of trade daily and constantly interprets and applies all rules to any abuses that arise.

Mr. McLAUGHLIN of Michigan. You have been present for several days—I mean at these hearings—and I think you have heard, as I have heard, a number of witnesses say in effect that it is generally known that there are evils and abuses and so on. Do you agree with them?

Mr. McDOUGAL. I do not think there are as many evils and abuses on the board of trade as there are in the practice of law or any other business. I do not know of any evils or abuses, Mr. McLaughlin, that the trade and the officers of the exchange are not constantly

striving to take care of and do take care of almost without exception. I heard yesterday or the day before questions asked about gamblers and manipulators, and the difference between gambling and speculation, and I thought those points had been fairly well cleared up in your mind, by Mr. Gate's testimony. A manipulator, about which you asked yesterday, is, of course, always a speculator, but he is a man who endeavors by strong arm methods to do that which is not fair and equitable, and on such men the whole trade frowns and tries to run down.

Mr. McLAUGHLIN of Michigan. You have just said that you think there are no more abuses in this line of business than are found in the practice of the law, and you go on to say that there are no abuses or evil practices that the boards of trade themselves do not try to correct. Do you know of any of these abuses or evil practices which the board themselves are not able to correct which might possibly be corrected by law?

Mr. McDOUGAL. No, I do not.

Mr. McLAUGHLIN of Michigan. I think it can be gathered, even from your testimony, that some evil practices exist or are indulged in that you are firmly of the opinion, evidently, that they must be left to the directors of the exchange.

Mr. McDOUGAL. I think, Mr. McLaughlin, that an attempt by legal enactment to remedy internal evils on these exchanges might be felt in creating an inflexible market. If our market is not flexible, it is no good to anybody; it is a dead thing.

Mr. HULINGS. What was the objection of the board of trade to the bucket shop?

Mr. McDOUGAL. The bucket shop was, in the first place, stealing quotations; and, in the second place, they were stealing them for the purposes of fraud.

Mr. HULINGS. Well, in what respect; how did that hurt, if the bucket shop got to know what the dealings were on the exchange? That was a public thing.

Mr. McDOUGAL. The Supreme Court here sustains our property right in the quotations and they are of substantial value, and they steal those quotations.

Mr. HULINGS. Why did they object to them stealing quotations, which are an intangible thing and could not subtract from their property?

Mr. McDOUGAL. Yes; it does.

Mr. HULINGS. Why was it? Because the gambling would be transferred from that back room some place all over the United States instead of to that board of trade, was the real reason, was it not?

Mr. McDOUGAL. It is not gambling; the decision here said it is not gambling, and these quotations bring into the board of trade large sums of money. They sell them the quotations.

Mr. HULINGS. That is it precisely.

Mr. McDOUGAL. And the bucket shops stole them and they used them not to be used in a minor market, General, but they used them simply to register bets, and the proprietor of the bucket shop bets the other way from his customer.

Mr. HULINGS. There would be one-eighth always in his favor, or a quarter?

Mr. MCLAUGHLIN of Michigan. The bucket shops made a larger market, and you tell us the larger the market the better it is for trade and for the farmer and consumer.

Mr. HULINGS. It seems to me that the purpose of the suit was not to establish a right of property, particularly, in the quotations, only as that was an incident to enable them to win the suit. But the real purpose was to drive those operations on to the board of these exchanges. They wanted the commissions there themselves instead of having the bucket shop keeper put them in his pocket.

Mr. MCDOUGAL. True, but do you not think the board of trade was entitled to its own property?

Mr. HULINGS. Yes; it was entitled to its own property, but I think that claim was the instrument or vehicle by which they could drive these quotations on to the board, where they could get the quotations instead of the bucket shop.

Mr. MCDOUGAL. A man wants everything that he can get lawfully and honestly and decently.

Mr. MCLAUGHLIN of Michigan. These quotations, however, that you speak of are simply statements as to actual conditions existing in the country. They are simply statements of what wheat is worth at the particular moment or day?

Mr. MCDOUGAL. Yes; they express the value.

Mr. MCLAUGHLIN of Michigan. They express the value of the bushel of grain that the farmer has and that the miller wishes to buy.

Mr. HULINGS. They are open to the public in every broker office and the ticker; everybody can get them.

Mr. MCLAUGHLIN of Michigan. Looking at it in one way I do not know why they should be withheld; on the other hand, if a man goes to work at a large expense and immense trouble to get those for his own business, I do not know why he should not be permitted to keep them to himself. There are two ways of looking at it; there is simply a statement of actual conditions, telling what the farmer's wheat is worth in his bin, and the miller must pay that if he buys it at that particular moment.

Mr. PURNELL. The bucket shops took some of the board customers, did they not. Does not that enter into it?

Mr. MCDOUGAL. Oh, yes; they take some of the board's customers, and the board spends a large amount of money in acquiring the information and producing the facilities on which the whole market structure is reared.

I would like to say, Mr. Chairman, if I might be permitted, that the men who follow me are much more competent witnesses in respect of these bucket shop matters than I am; and I have tried to make as frank and open a statement as I could from my own knowledge of them, and I intended to add that my experience has been limited largely on the board of trade and as a buyer and seller of futures, as a buyer of our cash grain on a large scale for eastern millers and exporters for foreign Governments. And so, if you gentlemen would be good enough to let me, as far as you can, limit myself to the scope of my own activities, it will help me a good deal, and the other information will be cheerfully and more competently given by my

colleagues. I only mention that as a request, so as to expedite the hearing.

Mr. SUMMERS. When the president of the cotton exchange was before this committee, I heard him state that in his judgment the ideal function of the cotton exchange would be not to have cash deliveries, not to have deliveries on its contracts, but to act as a head. What do you say as to that proposition with reference to the grain exchanges?

Mr. MCDOUGAL. I do not believe I understand your question.

(The last question above was then read by the stenographer.)

Mr. MCDOUGAL. Grain exchanges can get along without cash delivery.

Mr. SUMMERS. You stated a moment ago that the market would be valueless unless it was flexible. What do you mean by "flexible?"

Mr. MCDOUGAL. I meant capable of being traded in freely.

Mr. SUMMERS. What do you mean by "being traded in freely?"

Mr. MCDOUGAL. I said a moment ago, sir, that I had a certain order for a large quantity of grain delivered to the west coast of Italy; and as a preface to the purchase of the cash, I had to give orders to buy the May future, I think it was. We did buy the May future on a million and a half bushels, and I think it was in a half hour, on a range, I think, of not more than 2 or 2½ cents a bushel.

Mr. SUMMERS. I did not mean to have you repeat what is already in the record. I just came in, and I am asking these questions by courtesy of the committee.

Mr. MCDOUGAL. Pardon me. If we had had an inflexible market instead of a flexible market, we would have had to probably pay 5 or 6 cents a bushel more.

Mr. SUMMERS. Do you mean a market that will bend and twist and go up and down?

Mr. MCDOUGAL. I mean a market that will respond sensitively and sensibly to buying and selling. If there are no buyers and no sellers when we go on the market, or if there are no buyers when we have large contracts to sell on the market, the range is so great that it will destroy any possibility of profit or make it impossible to fill any order, which usually comes at a fixed limit from the other side.

Mr. SUMMERS. What you mean, then, is that if there is nobody wants to buy if you want to sell, and nobody wants to sell when you want to buy, you can not trade.

Mr. MCDOUGAL. Yes, sir.

Mr. SUMMERS. That is true, is it not, everywhere on every commodity on earth. I want to ask you this question: What is your judgment as to the influence of the practice of hedging after the crop is in sight? Take your wheat crop, and the crop is in sight and part of that crop is sold, and the people who buy it hedge. What effect do you think that the privilege and the custom of hedging has on the price of the unsold crop with reference to stability?

Mr. MCDOUGAL. I do not think it has any effect on the unsold portion of the crop.

Mr. SUMMERS. Let me ask you this question: If you buy wheat and you hedge that sale, the parity between the future and spot market is maintained. You hedge to an amount equal to that spot purchase. You have cut yourself off from hope of gain if that price goes up, have you not?

Mr. McDougal. Not necessarily.

Mr. Summers. Why not?

Mr. McDougal. Because, you have made your hedge in the expectancy of making your profit out of the cash.

Mr. Summers. If you buy 10,000 bushels of wheat and sell a hedge against it, then when you sell spot wheat you close out the hedge, do you not?

Mr. McDougal. Agreed.

Mr. Summers. If it is true this parity between the future and spot market is maintained, what difference does it make to you whether that price goes up—what you make on the spot you lose on the hedge, and vice versa, do you not?

Mr. McDougal. The profit comes in the price that you have your contract sold abroad at.

Mr. Summers. I know it; that is what I am talking about. But that is constant, is it not, when it goes up or down?

Mr. McDougal. Sir?

Mr. Summers. That is a constant margin you have got, whether the general market goes up or down?

Mr. McDougal. As a buyer, of course, I have got a margin, or I would not have entered the market. I have an expected profit.

Mr. Summers. I will ask you this question: I evidently do not make myself clear—suppose you bought that wheat to the extent of 10,000 bushels at $2 a bushel, and you sell a hedge for 10,000 bushels against that. Would you not on your contract be able to net just as much money if that delivery was made at $1.50, provided the future market also went down and held the parity between the future and the spot market?

Mr. McDougal. I do not think you would.

Mr. Summers. Why not? I would just like you to tell the committee why.

Mr. McDougal. Well, suppose I cite a real case.

Mr. Summers. I have stated a concrete case. You bought the 10,000 bushels of wheat, and you have sold it on the contract, and you bought a hedge against it. Then when you deliver the wheat you sold out the hedge.

Mr. McDougal. When I sold the future against the 10,000 bushels cash wheat, I did not buy any hedge; I sold a hedge.

Mr. Summers. Of course. When you bought the wheat you sold the hedge?

Mr. McDougal. When I bought the 10,000 bushels in the first place, sir, I had an order from, let us say, a miller?

Mr. Summers. Yes.

Mr. McDougal. To buy the wheat?

Mr. Summers. Yes.

Mr. McDougal. And it is on his orders that the cash wheat has been sold, and all that this hedge has been——

Mr. Summers (interposing). There is no difference of opinion about that. I am getting to the tail of the transaction now. Wheat goes down to-day to $1.50 a bushel, and what you have lost on your spot you have won on your hedges, have you not? Otherwise, hedging would not be worth anything. That is a definite, concrete proposition. You say you are a trader in grain. I do not see any difficulty about answering that question.

Mr. McDougal. The hedge is made on our board——

Mr. Summers (interposing). I understand that. But could you or not answer that definite, concrete question that I have tried to put to you?

Mr. McDougal. It is a supposititious case.

Mr. Summers. Does it not happen all the time in trade; is not that the very purpose of the hedge—to protect yourself against a loss?

Mr. McDougal. The purpose of the hedge is to insure safety or minimize the risk.

Mr. Summers. I want to ask this question: If you had bought 10,000 bushels of wheat and had not hedged, would you be more or less disposed to sell for $1.50 if you had not hedged than you would have been disposed to sell at $1.50 a bushel if you had hedged? What do you say to that?

Mr. McDougal. It depends at what price the hedge is made.

Mr. Summers. You have not hedged at all in that case?

Mr. McDougal. Then I would not be considering the hedge at all.

Mr. Summers. If you had not hedged at all, you would hang onto that $2 wheat a good while before you would sell for $1.50, a whole lot longer than if you had hedged?

Mr. McDougal. Why, if I had a loss in it, I would run away from it as fast as I could. I do not speculate in the market.

Mr. Tincher. Let me see if I can make you understand. You have ordered 10,000 bushels of wheat at $2. You make a hedge. You do that to insure yourself against a loss on it.

Mr. McDougal. Not exactly, sir. I get an order from a client in the East to buy 10,000 bushels of wheat, and it is bought so much over or so much under the future. You see, I am not the principal; I am the agent.

Mr. Tincher. You ought to know something, even if you are nothing but an agent. If the hedge is to furnish insurance, the point Mr. Young attempts to make is that it must of necessity preclude interest in the fluctuation in the market or preclude additional profit. If you take the hedge to furnish insurance on the price it would naturally preclude additional profit, or change in the market, because you could not possibly profit in it if you had taken the hedge for the purpose of furnishing insurance.

Mr. McDougal. I have already said all there is in the transaction of the client that we represent is his own estimated margin of profit, and the hedge insures it.

Mr. Tincher. Then, does not the same hedge preclude additional profit, because it has this other transaction pending?

Mr. McDougal. Yes, I think it does.

Mr. Tincher. The hedge protects him from loss and precludes further profit in the transaction. That is the case.

Mr. Summers. Is not this the situation; When the crop is in sight, and half the crop is sold and that half crop is hedged, does not that throw the entire weight of sustaining the market on the unsold part of the wheat on the farmer, who has got it in his bin?

Mr. McDougal. No, I do not think there is any weight on his wheat until he sells it. What weight can there be on his wheat?

Mr. Summers. It has this weight, that if anybody can manipulate that market by any scheme, you have got this sale at $1.50 or $2 a

bushel, the wheat you paid $2 for. That is the weight thrown on his market. It is insurance, but it is a good insurance. It is the same kind of insurance as if you were to insure a house for every dollar it was worth and burn it down for every dollar of insurance; is not that right? But you endanger the property of your neighbors.

Mr. McDOUGAL. I can not see it that way.

The CHAIRMAN. Information was requested as to the limitations upon future trading in grain which were imposed on members of the Chicago Board of Trade prior to the dissolution of the Food Administration and the Grain Corporation. I took the matter up with the Department of Agriculture. The information is here. Shall it be printed in the record? The matter was referred to the department in Chicago with a request that a copy of the order be made.

Mr. PURNELL. I move that it be inserted in the record.

The CHAIRMAN. Without objection it is so ordered.

(The letter from the Department of Agriculture and the telegram referred to are here printed in full, as follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE,
BUREAU OF MARKETS,
Washington, D. C., January 11, 1921.

Hon. GILBERT N. HAUGEN,
House of Representatives.

DEAR MR. HAUGEN: In response to your request for further information regarding the limitations upon future trading in grain which were imposed on the members of the Chicago Board of Trade prior to the dissolution of the Food Administration and the Grain Corporation, I have had Mr. Rollin E. Smith, who has returned to Chicago, inquire into this matter. I am now in receipt of a telegram from him explaining the situation, and inclose copies of these telegrams for your information. I believe that they are self-explanatory. In case, however, there is any part of them that you do not understand I shall be glad to seek further information for you.

Very truly, yours,

GEORGE LIVINGSTON,
Chief of Bureau.

CHICAGO, ILL., *January 11, 1921.*

BESLEY, *Washington, D. C.*

December 6 of same year the limit on speculative trades was modified by the directors of the board permitting in addition to the 200,000 bushels the same amount on each side of spread accounts.

On December 26 of same year all restrictions were rescinded as a result of the following from J. J. Stream, Chief Coarse Grains Division of Food Administration:

"NEW YORK, *December 24, 1919.*

"JOHN R. MAUFF,
"*Secretary of Board of Trade, Chicago.*

"Grain exchanges are advised that on and after January 1, 1919, they may in their discretion remove all quantity restrictions on trading in future deliveries of corn, oats, rye, and barley. This relaxation does not abrogate or modify any of the provisions of the food-control act, and grain exchanges and their members will continue to be held strictly accountable for any manipulative practices resulting in undue depression or enhancement of grain prices."

On May 19, 1919, due to erratic fluctuations, the board of directors again placed a limit of 200,000 bushels on trades other than hedging in corn. This restriction continued until February 25, 1920, when the order was rescinded in the following communication from the secretary of the board to members:

"*To members:*

"On May 19, 1919, this board of directors by resolution placed on its member restrictions and limitations on the execution of contracts calling for corn exclusive of those hedging purposes and called attention to the restrictions against hoarding as contained in section 6 of the food-control law.

"The responsibility for the fulfillment of the obligations so proclaimed by the board of directors was vested in the executive officers of this association through the aforesaid resolution. It is now the desire of the board of directors to make this responsibility in the future a matter of honor and loyalty for each member of the association and to transfer in such manner the responsibility that has heretofore rested with the executive officer.

"Daily reports to the executive officers on all other corn transactions will be discontinued and quantity restrictions removed on and after to-day, and the executive officers take this opportunity to express to the members their deep appreciation of the spontaneous cooperation and sincere response to demands unique in the annals of this association."

ROLLIN SMITH.

The CHAIRMAN. I have a number of telegrams for requests for hearing, which we might dispose of at this time if agreeable to the committee.

Mr. MCLAUGHLIN of Michigan. Can you not dispose of them, Mr. Chairman, better than we? You know the dates and how long it will take.

The CHAIRMAN. Mr. Hoover was invited to appear on Monday. His telegram reads that he will not be able to be here on Monday and suggests Thursday.

Mr. MCLAUGHLIN of Michigan. I do not understand that he says he can not be here on Monday but that he prefers to be here Thursday.

The CHAIRMAN. The clerk will read the telegrams.

(L. G. Haugen, clerk to the committee, thereupon read as follows:)

NEW YORK, N. Y., *January 21, 1921.*

G. N. HAUGEN,
Chairman Committee on Agriculture,
House of Representatives, Washington, D. C.

Answer must be in Columbus, Ohio, January 17; important engagements in New York until Thursday. Would it be possible for me to appear before your committee January 12?

HERBERT HOOVER.

Mr. TINCHER. That is next Thursday, is it not?

The CHAIRMAN. Yes, sir.

Mr. HULINGS. What side is Mr. Hoover going to talk on?

The CHAIRMAN. I do not know.

Mr. HULINGS. If he is going to talk for the exchanges, we have had lots of them. He can not add anything to it.

The CHAIRMAN. What is the pleasure of the committee?

Mr. TINCHER. Under the present arrangement of the committee, the hearings should close Monday night; is that right?

The CHAIRMAN. Monday night.

Mr. TINCHER. We got into this predicament by inviting Mr. Barnes and Mr. Hoover to appear before this committee. Personally, I want to close the hearings as soon as we can. However, it is hardly the right thing to have Mr. Barnes come here Monday. My impression is that Mr. Barnes and Mr. Hoover are not in accord in this matter. They are both big men, but I am convinced they are not in absolute accord on the method of handling grain futures. Mr. Barnes's testimony will be along the same line as the gentleman who testified here yesterday from the Chicago Board of Trade. I do not like the committee to wait to hear just one witness.

Mr. MCLAUGHLIN of Michigan. I move we hear Mr. Hoover on the date he mentions.

Mr. PURNELL. I think we ought to close the hearings Monday night, with the exception of Mr. Hoover, but I think in courtesy to him, since he is engaged in this very important European relief work. He was invited by the committee, and I think we ought to close the hearings Monday night, with the exception of Mr. Hoover, and we ought to hear him on Thursday.

Mr. MCLAUGHLIN of Michigan. I move that we hear Mr. Hoover next Thursday.

Mr. PURNELL. I want to offer an amendment. I do not want the hearings to drag out over Tuesday and Wednesday and Thursday, because I know all of us have got a lot of other important business to take care of.

Mr. MCLAUGHLIN of Michigan. We are practically holding over until Thursday if my motion prevails, and if any one wants to come in the meantime I think they should be heard.

The CHAIRMAN. The committee has resolved to close the hearings on Monday. You have heard Mr. McLaughlin's motion. Are you ready for the question?

(The motion was duly carried.

(L. G. Haugen (clerk to the committee) thereupon read a telegram from Mr. Julius H. Barnes, as follows:)

NEW YORK, N. Y., *January 12, 1921.*

G. N. HAUGEN,
Chairman Committee on Agriculture,
Washington, D. C.

Your telegram received. I shall be very glad to respond, and will be in Washington Monday morning as you request.

JULIUS H. BARNES.

(L. G. Haugen, clerk to the committee, thereupon read a telegram from Mr. Clifford Thorne, as follows:)

CHICAGO, ILL., *January 12, 1921.*

Hon. G. N. HAUGEN,
Washington, D. C.:

Regret very much to state I have important trial commencing 18th at Oklahoma City which is impossible to postpone. Eckhart has agreed to present closing testimony on behalf agricultural associations interested and will appear before your committee Monday, if agreeable to you.

CLIFFORD THORNE.

The CHAIRMAN. Shall we hear Mr. Thorne? Without objection it is so ordered.

L. G. HAUGEN (clerk to the committee). Congressman Steenerson desires to be heard at 11 o'clock Saturday morning.

The CHAIRMAN. Without objection it is so ordered.

Mr. TINCHER. Congressman Young, of North Dakota, wants to be heard. He desired us to fix the time. He is on the Committee on Ways and Means.

The CHAIRMAN. Without objection, the committee will hear him Saturday.

L. G. HAUGEN (clerk to the committee). Senator Dial, of South Carolina, desires to be heard on cotton trading.

The CHAIRMAN. Without objection the Senator will be heard on Saturday.

L. G. HAUGEN (clerk to the committee). Mr. Beir, of Carrington, S. Dak., sent a telegram in reply to one sent by this committee. [Reading:]

CARRINGTON, N. DAK., *January 13, 1921.*

G. N. HAUGEN,
Chairman Committee on Agriculture, Washington, D. C.:

Distance makes it impossible for me to appear this week. Please advise if I will get a hearing if I appear on the 19th.

FRED BEIR, Sr.

Mr. MCLAUGHLIN of Michigan. Why not hear him on Thursday?

The CHAIRMAN. Without objection we will hear Mr. Beir on Thursday.

If anybody desires copies of the printed reports of these hearings kindly give your name and the address to the clerk and they will be mailed to you.

Mr. TINCHER. Before hearing another witness, in order that we may be advised as to the activities and the propaganda circulated concerning the matter, I desire to call attention to the fact that on January 10 the Commercial Telegraphers' Union of America, affiliated with the American Federation of Labor and Trade Labor Council of Kansas, from their offices and headquarters at Eastern Broker Division, New York, issued a form letter, in which they say a copy of the letter has been mailed to all Members of Congress who protest against this legislation, saying that it will deprive large numbers of men from employment. I ask permission to put this letter in the record at this time.

The CHAIRMAN. Without objection it is so ordered.

(The letter of the Commercial Telegraphers' Union submitted by Mr. Tincher is here submitted in full, as follows:)

THE COMMERCIAL TELEGRAPHERS' UNION OF AMERICA,
EASTERN BROKER DIVISION,
New York, N. Y., January 10, 1921.

At a special meeting of the Eastern Broker Division of the Commercial Telegraphers' Union of America, held on Saturady, January 8, at the headquarters, 44 Broad Street, New York, the following resolution was adopted.

Whereas Representative Tincher, Member of the Sixty-sixth Congress, introduced in the House of Representatives a bill, known as H. R. 14657, which was referred to the Committee on Agriculture, providing for the levying, collection, and payment of a 10 per cent tax upon contracts for the future delivery of grain, grain products, and cotton, and options for such contracts; and

Whereas the passage of such a bill would immediately cause the discontinuance of the present stable method of handling grain, grain products, and cotton, thereby automatically throwing out of employment thousands of employees engaged directly in this work, who are members of the Commercial Telegraphers' Union of America; and

Whereas, the members of the Eastern Broker Division of the Commercial Telegraphers' Union of America in special meeting assembled, January 9, 1921, voted unanimously that the division do everything within its power to preserve to its members their honorable means of earning a livelihood: Therefore, be it

Resolved, That the Eastern Broker Division, a subordinate unit of the Commercial Telegraphers' Union of America, affiliated with the American Federation of Labor and the Trades and Labor Council of Canada, hereby voices its protest and opposes the passage of H. R. 14657, and this meeting instructs that a copy of this resolution be mailed to members of the Committee on Agriculture and all Members of the House of Representatives.

JOHN W. DUNN,
General Chairman.
JOHN A. HICKEY,
General Secretary-Treasurer.

The CHAIRMAN. We will now hear Mr. Murray.

STATEMENT OF MR. JAMES C. MURRAY, REPRESENTING THE QUAKER OATS CO., CHICAGO.

Mr. MURRAY. I come here representing the Quaker Oats Co. to urge the importance of the privilege of trading in futures to the milling industry. In our business we mill all of the principal cereals, including wheat, corn, oats, barley, rye, and rice. The quantity annually runs into many millions of bushels, of which a considerable percentage is shipped direct from country stations. In the handling of this large volume we aim to avoid speculation.

Theoretically our business might be described as buying grain, milling it, and selling the product. In practice it is not so simple because of variation in demand and supply, and without going into lengthy detail I would ask your consideration of a few of the most important features. Our products are sold in the United States and in practically all countries. Stocks of cereal products are reduced in the spring of the year in the hands of consumer, retailer, and distributor to a minimum and are replaced in the fall. A great rush of business faces the milling industry with the opening up of the fall demand. Orders are received greatly in excess of the immediate supply of grain, and in our business we aim to avoid speculation by immediately covering all sales with an equal quantity of cash grain or future contracts. The fact of our being able to cover our sales immediately enables us to work on close margins and eliminates speculation. Briefly that is one feature in our business in which the futures market is of unqualified benefit. It facilitates not only the milling business but the distribution of the products of the mills throughout this country and in foreign countries.

Another side to this problem may be stated. We have large elevators for grain storage connected with our milling plants and frequently during the movement of the crops of the several grains sales by the producer will exceed the capacity of the mills and the volume of orders on hand. Without the facility of selling future contracts we would be compelled to speculate on this surplus grain or stop buying. In practice, however, we continue in the market until our storage space is filled, selling in the future market against our surplus stock, thereby taking the grain into our mills when the farmer is marketing and holding without risk to ourselves until time of need. We therefore provide a steady market based on terminal market values for the grain that we use in our mills.

There are several other features which I might mention briefly in which the future markets serve to modify risks and assist business, as follows: The immediate covering of export contracts sometimes running into hundreds of thousands of bushels; the hedging of grain carried in country elevators of which we operate 40 in Iowa and South Dakota; the protection of sales of feed stuffs to southern planters who contract for their entire season's supplies running over a period of several months. Such contracts must be largely covered by purchase of grain futures which are sold out in exchange for the cash grain as the latter is required at the mills.

The great advantage to us in a free and open future market is a volume of trading which permits the covering of moderate or normal needs or the placing of hedges against unsold grain without a narrow range. Any curtailment would result in wider swings and corresponding increased risk to the miller.

We feel that the present system renders a great service in the handling of the grain crops and manufacture into human and animal foods at the minimum risk and consequent advantage to the producer, miller, and consumer.

The CHAIRMAN. Any questions, gentlemen, of the committee?

Mr. PURNELL. What is your total storage capacity?

Mr. MURRAY. In our three mills in this country, our three principal mills, we have a total storage capacity of about 6,000,000 bushels of grain.

Mr. PURNELL. Are you, in the season, bought up to capacity?

Mr. MURRAY. Depending entirely on the movement from the farms. Sometimes our sales of products greatly exceed the capacity of our storage, and at other times the orders on our books are less than the capacity of our storage.

Mr. PURNELL. Is it your testimony before the committee that without the hedging privilege you would not buy as much grain and store it as you now do?

Mr. MURRAY. Yes; absolutely that.

Mr. PURNELL. How would you provide yourself with current needs in case you had no hedging facilities?

Mr. MURRAY. We would have to be content with a smaller business, or take the other option, which would be to buy grain and speculate on it and stand on it.

Mr. PURNELL. Which course do you think you would pursue in fact?

Mr. MURRAY. Under present milling markets we would have to buy from hand to mouth.

Mr. PURNELL. Do you mean to place orders from day to day in anticipation of your current needs?

Mr. MURRAY. Our business comes from many offices and agents. There are orders coming in daily, and while the volume of those orders fluctuate, we always know there is a certain amount of business coming in every day. And our purchases are made on the basis of those orders that come in.

Mr. PURNELL. You only have one manufacturing plant?

Mr. MURRAY. Oh, no; we have six plants in this country.

Mr. PURNELL. Where is your principal plant?

Mr. MURRAY. It is at Cedar Rapids, Iowa. Then we have a plant at Akron, Ohio, and a plant at Fort Dodge, Iowa, and have a feed-manufacturing mill at Memphis, Tenn.; and a feed-manufacturing plant at Buffalo; a feed plant and distributing plant at Richford, Vt.; a cereal plant at Battle Creek, Mich.; and a macaroni plant at Tecumseh.

Mr. PURNELL. Do those plants buy separately or do you have one central buying agency?

Mr. MURRAY. The buying is all done through the Chicago office. That is, the policy of buying is directed from the Chicago office.

Mr. PURNELL. Are all of the deals hedged on the Chicago market?

Mr. MURRAY. No; we use Kansas City, Minneapolis, and Chicago.

Mr. PURNELL. Without the hedging privilege are you able to say how that price would be reflected in the price of the finished product?

Mr. MURRAY. No; we have never had any experience along that line. Since I have been in the grain department of the company, which has covered a period of 16 years, we have always used the future market as a protection against our sales or our surplus grain.

Mr. PURNELL. Do you or not do any speculating in the sense that you do not buy or sell short or long?

Mr. MURRAY. No, sir; not to any extent. Our books are kept as nearly complete as we can. Our business is to avoid speculating. Our profits are made in the turnover in the products of the mills, and not in the ups and downs of the market.

Mr. PURNELL. What is your opinion as to the effect on the market of purely speculative transactions involving neither the receipts nor the delivery of the actual product?

Mr. MURRAY. I think it has very little effect.

Mr. PURNELL. You have listened to some of the testimony given before this committee, have you not?

Mr. MURRAY. Yes, sir.

Mr. PURNELL. The statement has been made repeatedly that purely speculative deals involving no actual transfer of products tends to stabilize the market. What do you say about that?

Mr. MURRAY. I believe that they do.

Mr. PURNELL. You think that they could not be eliminated without injury to the general market?

Mr. MURRAY. That would be my judgment.

Mr. PURNELL. That is all, Mr. Chairman.

Mr. TINCHER. What company is your company?

Mr. MURRAY. The Quaker Oats Co.

Mr. TINCHER. Oh, I see. You have a business at Battle Creek, Mich., did you say?

Mr. MURRAY. We have some cereal plants there.

Mr. TINCHER. You did not lose any money on your substitutes during the war, did you?

Mr. MURRAY. Our earnings were good during the war period. They were all examined by the Government and kept within the limits required by the Government and stipulated by the Food Administration.

Mr. TINCHER. But your profits were not bothered in any way?

Mr. MURRAY. Our profits on all cereals were limited by the Food Administration. We were not allowed to make over a certain sum per barrel on oatmeal, corn meal, or any goods manufactured.

Mr. TINCHER. I understand about oatmeal. What do you manufacture principally?

Mr. MURRAY. Quaker Oats is one of our principal products.

Mr. TINCHER. It was one of the substitutes for flour during the war, wasn't it?

Mr. MURRAY. Yes; it was used as a substitutes but not ordered as a substitute.

Mr. TINCHER. Under that famous regulation by which you could get only so many pounds of flour by buying so many pounds of substitutes, I inderstand that your Quaker Oats were mentioned.

Mr. MURRAY. Well, rolled oats was one of them.

Mr. TINCHER. Do you make Quaker Oats?

Mr. MURRAY. Yes, sir. Rolled oats is only sold under a brand. Our capacity in that is greater than in Quaker Oats.

Mr. TINCHER. Rolled oats were also a substitute for flour?

Mr. MURRAY. Yes, sir.

Mr. TINCHER. You say that if gamblers, men who do not contemplate delivery, were not permitted to trade you are afraid you would not have a stable market?

Mr. MURRAY. That would be my judgment. The volume of trade generally in the principal exchanges facilitates business.

Mr. TINCHER. That is just your offhand judgment?

Mr. MURRAY. Yes, sir. We have no interest in the commission houses.

Mr. TINCHER. You did not have the benefit during the war of trading in futures?

Mr. MURRAY. Oh, yes; in oats and corn, but not in wheat. The price of wheat was fixed by the Government, so that we always knew pretty well where we stood. Besides, the first year of the war the supply of wheat was controlled by the Government absolutely, and we had to put in our requisitions, and were allowed only so much wheat. We could not have any more no matter what price we wanted to pay for it.

Mr. TINCHER. Do I understand you to say to this committee that the price of rolled oats was fixed by the Government during the war?

Mr. MURRAY. No. sir; but the margin of profit was fixed. Government auditors had access to and examined our books to see that profiteering was not indulged in.

Mr. TINCHER. There was some little comment I remember in the rural districts as to the amount of the products actually used, or required to be used as substitutes, and the price of those things as compared with flour or corn meal.

Mr. MURRAY. Yes, sir.

Mr. TINCHER. I remember at one time a person had to buy a wheelbarrow load of those substitutes in order to get a sack of flour.

Mr. MURRAY. Well.

Mr. TINCHER. And the sack of flour cost a man about $3, and those substitutes that he had to buy in order to get the sack of flour cost about $7, so that there was a total purchase of $10 in order to get a 48-pound sack of flour.

Mr. MCLAUGHLIN of Michigan. That protection was for the benefit of the consumer, I suppose?

Mr. TINCHER. Perhaps so. That is what they generally claim.

Mr. MURRAY. I do not know of any time when the price of rolled oats, or of corn meal, was higher than the price of flour.

Mr. PURNELL. You do not know of any Member of Congress who ever had enough money to buy a wheelbarrow load of substitutes?

Mr. TINCHER. If you lived out in that country at the time you had to buy them in order to live whether you were able or not.

Mr. MCLAUGHLIN of Michigan. Mr. Murray, are your sales those of your finished product alone or do you buy and sell grain as such?

Mr. MURRAY. We do not do any merchandising in grain as a general proposition. The only grain in volume that we have to sell is that which we are unable to use in our mills.

Mr. MCLAUGHLIN of Michigan. Does your company make the ordinary flour?

Mr. MURRAY. Oh, yes; both in this country and in Canada.

Mr. MCLAUGHLIN of Michigan. You spoke of mills in this country That would mean that you have mills elsewhere. In what other countries have you mills?

Mr. MURRAY. In Canada.

Mr. MCLAUGHLIN of Michigan. How many mills have you there?

Mr. MURRAY. Two.

Mr. McLAUGHLIN of Michigan. At what points?

Mr. MURRAY. At Peterboro, Ontario, and at Saskatoon, Saskatchewan.

Mr. YOUNG. In your prepared statement you spoke of your business, one branch of it being selling feedstuffs to southern producers?

Mr. MURRAY. Yes, sir.

Mr. YOUNG. What is the character of that feedstuff?

Mr. MURRAY. It is manufactured from corn, oats, molasses, and is oat feed.

Mr. YOUNG. From what point do you distribute that feed?

Mr. MURRAY. Principally from Cedar Rapids, and also from Morris, Ill. However, we have closed the Morris plant and opened up a plant at Memphis, Tenn.

Mr. YOUNG. To what States do you distribute that product?

Mr. MURRAY. In all States in the South, from Texas on, depending upon the demand for feedstuff.

Mr. YOUNG. At what season of the year do you usually sell those goods?

Mr. MURRAY. From December 1 to January 15, and deliveries are made from that time on until June 15.

Mr. YOUNG. During the crop-producing period in the South?

Mr. MURRAY During the time when the grain is being grown.

Mr. YOUNG. You sell it in the South during the spring months?

Mr. MURRAY. Yes, sir. They contract ahead in order to be sure of their supply of feeds. That is the custom in the South, to make their contracts ahead so as to know they will have what they need.

Mr. YOUNG. I am curious to know, since the collapse in the marketing of the cotton crop in the South, how you find your feed business at this time?

Mr. MURRAY. Well, it has been hesitant, you might say, up to the present time. They have not had the same snap that they have had in other years. However, we have sold considerable feed in the last 30 days.

Mr. YOUNG. Do you or not find that in the cotton-producing section of the country they are going to feed crops and withdrawing from the cotton business somewhat?

Mr. MURRAY. I hear a great deal about that, but I do not know as to whether or not it is a fact of my own knowledge.

Mr. YOUNG. I think that is a fact as far as our people are concerned. They will have to buy feed this year, but that is forced on them, and the other plan is really their program for another year.

Mr. MURRAY. I do not know about that.

Mr. YOUNG. As to the marketing proposition, the information you give us is rather interesting. You buy wheat for the purpose of manufacturing products to supply your trade in the various parts of the country?

Mr. MURRAY. Yes, sir; throughout the world.

Mr. YOUNG. And your business is to manufacture those products and not sell wheat again as wheat?

Mr. MURRAY. No, sir; not to sell wheat again as wheat.

Mr. Young. But as manufactured products?

Mr. MURRAY. Yes, sir.

Mr. Young. Assuming that in a given transaction you need 10,000 bushels of wheat to fill a certain order in the shape of manufactured

goods, which do you do first, close your contract for your manufactured goods or go on the exchanges and take care of your needs for 10,000 bushels of wheat?

Mr. MURRAY. In the handling of our business it is seldom that an order is immediately matched. We have a certain volume of business come in every morning, and that is figured up, and by 11 o'clock I know what volume of orders we have that I must take care of in the shape of grain purchases.

Mr. YOUNG. Assuming that those orders on a particular day would call for 10,000 bushels of wheat, what would be your transaction?

Mr. MURRAY. It would depend upon the stocks at the mills.

Mr. YOUNG. You mean at your own mills.

Mr. MURRAY. Yes, sir. And if I had more grain than was needed to fill the orders on hand, I would probably sell a hedge to protect ourselves, and use the cash grain in the mills to fill the orders for manufacturing products. If I simply had enough cash wheat on hand to fill the orders we already had, and therefore we would be short of cash wheat, when this 10,000 bushel order came in I would immediately see if I had cash wheat in sight that could be bought to cover that sale of products. If I did not have that quantity of cash wheat, and the market was such that I did not care to wait a day or two in order to look around and find it, I would immediately put in an order for future wheat, and the sale would be covered in that way. Then when cash wheat was obtained, say, in the next week or 10 days or whenever it could be done, the future would be dumped, as it would then be of absolutely no use to us.

Mr. YOUNG. If you had absolutely no grain on hand your transaction would be in future grain before you would fill the orders that came in on that day?

Mr. MURRAY. Yes, sir.

Mr. YOUNG. After you went on the exchanges to fill that contract, then you would contract to fill those orders?

Mr. MURRAY. Yes, sir; in order to practically meet each other.

Mr. YOUNG. You would not be particularly interested in that transaction as to what happened with spot, would you?

Mr. MURRAY. Our interest is in the cost of spot wheat as compared to the future. We have to figure the cost of our product on the basis of the cost of cash wheat.

Mr. YOUNG. Then it would be of direct interest to you if you had gone on the exchange and handled 10,000 bushels of wheat? your interest would be to buy spot wheat within the price that you had sold futures on the exchange?

Mr. MURRAY. Provided there was no change in conditions. That would be explained in this way: We will say that cash wheat is selling at five cents under December wheat. Our price on flour is fixed on five cents under December wheat. We would say that December wheat is $2 a bushel, and therefore cash wheat is $1.95. I am unable to place an order for cash wheat immediately, and do not know where to get it, and I buy 5,000 bushels or 10,000 bushels of December wheat at $2 a bushel. So far as the trend of the market is concerned we are through, we have satisfied our risk, or eliminated it.

Then, our cost of wheat is fixed at 5 cents under December. I will go out to-morrow and pay, say, $2.10 a bushel for wheat, but in doing

so I sell my December wheat at $2.15. So I preserve that relation as nearly as I can. Our only risk is the spread. I may be able to get it at five under, or three under, or may get it at seven under.

Mr. YOUNG. You frequently find a loss in both the cash and the spot transactions, don't you?

Mr. MURRAY. That may operate in the spread. I might be able to get wheat at 5 cents under December. I may get it at 3 cents under December, or maybe get it at 7 cents under December.

Mr. YOUNG. Future sales of cotton are usually at less than the price of spot cotton. I think that is true running through the experience of a period of years. Do you have that same experience in the grain trade?

Mr. MURRAY. At times one is unable to sell futures at as high a price as cash.

Mr. YOUNG. What is the occasion of that?

Mr. MURRAY. Lack of buying for the future.

Mr. YOUNG. If futures are supposed to reflect real values, is that because somebody wants to bear the market?

Mr. MURRAY. Prices are reflected by the demand.

Mr. YOUNG. What does that mean? That the demand is not as good for the future as for spot?

Mr. MURRAY. Yes, sir.

Mr. YOUNG. If a combination of sellers got together in the future market, with enough money behind them, they could almost name the price of the future market, couldn't they?

Mr. MURRAY. No, I would not say that, because every man who sells wheat must buy it back.

Mr. YOUNG. That is, if he is selling actual wheat?

Mr. MURRAY. That does not make any difference on the board of trade, as I understand.

Mr. YOUNG. What do you mean by wash sale; men who get together and make combinations and then when another fellow comes along in a legitimate trade, these other fellows combine against him, and the tickets they have made they tear up at night, and have used them merely for the purpose of manipulating the market?

Mr. MURRAY. I have never heard of any wash trades in grain.

Mr. YOUNG. The cotton business is full of it.

Mr. MURRAY. I have no interest in the cotton business, and therefore I would not know about that.

Mr. YOUNG. I have understood that the grain business was run pretty much along the same line so far as the business conducted in the exchanges is concerned, as that in the cotton exchanges.

Mr. TINCHER. You do not mean to say that they do not have those trades on boards of trade?

Mr. MURRAY. You mean what the gentleman referred to as wash trades?

Mr. TINCHER. Yes.

Mr. MURRAY. I have never heard of them.

Mr. TINCHER. You do not mean to say that men do not combine at Chicago and one sell and another buy and handle it in the way that Mr. Young has described in his question?

Mr. MURRAY. I do not say that they do not. But I would say that that would be considered unbecoming conduct and against the rules and regulations of the exchange.

Mr. TINCHER. You would say then that that does not occur?

Mr. MURRAY. Well, I am not acquainted enough to say positively, but I do not think it does.

Mr. YOUNG. If that kind of conduct were permitted in either the cotton or the grain exchanges of the country, it ought to be driven out of the business?

Mr. MURRAY. Absolutely.

Mr. YOUNG. Can you tell us how to do it?

Mr. MURRAY. Why, if it is being done I should think there would be a remedy.

Mr. YOUNG. We know it is being done on the cotton exchanges. I do not say as to the grain exchanges, because I do not know about them.

Mr. TINCHER. The difference between grain futures and cash grain is very apparent now, isn't it?

Mr. MURRAY. They are always apparent.

Mr. TINCHER. What were they on yesterday?

Mr. MURRAY. I do not know about yesterday. But when I left Chicago it ranged from 5 cents to 35 cents over March, depending upon what kind of wheat you wanted. Contract grades of wheat were obtainable in Chicago at 5 cents over March on the day that I left Chicago.

Mr. YOUNG. Spots were worth more than future quotations on the exchange?

Mr. MURRAY. Yes, sir.

Mr. TINCHER. Ranging from what to what?

Mr. MURRAY. From 5 cents to 30 cents. That is a condition that a man engaged in the grain business can explain very readily, whereas a man who is not watching the grain business and who does not understand same would have some difficulty in understanding it. If I may explain to you I will say: There is a shortage here of red winter wheat. That wheat is used very largely in the manufacture of biscuit flour, and there is a better demand for that particular wheat than for hard winter or spring wheat. So there is a premium being paid for that particular quality of wheat. It all comes in the merchandising of the crop.

Mr. TINCHER. The spread is still greater in May options than March options, isn't it?

Mr. MURRAY. That to my mind could be explained in the lack of demand for the future months, because of the possibilities of lower prices and the greater risk at that distance.

Mr. JACOWAY. You say you handle about 6,000,000 bushels of wheat a year?

Mr. MURRAY. I think I have the figures here on wheat.

Mr. JACOWAY. Just approximately.

Mr. MURRAY. I say we have storage capacity for 6,000,000 bushels of grain at our plants. Our total consumption of grain at three of our mills during the last two years, and the three large mills we have in this country, was about 34,000,000 bushels annually.

Mr. MCLAUGHLIN of Michigan. Of all kinds of grain?

Mr. MURRAY. Yes, sir.

Mr. JACOWAY. You go into the future market, according to your testimony, and I have followed it as closely as I can, strictly for self-preservation?

Mr. MURRAY. Absolutely.

Mr. JACOWAY. Suppose you had no hedging market, suppose a bill were passed prohibiting dealing in futures in wheat; what would be the status of your big business if that condition of affairs resulted?

Mr. MURRAY. We would be forced to look up our capital first, to see how much money we could afford to risk in contracts for grain. From that point on we would determine as nearly as we could the minimum values. That would be a matter of study and more or less of speculation.

Mr. PURNELL. What do you mean by minimum values?

Mr. MURRAY. The lowest price to which the crop might go beginning at the time of its movement.

Mr. JACOWAY. You would begin to adjust your business on the law of supply and demand?

Mr. MURRAY. Yes; on the law of supply and demand, just as we do now.

Mr. JACOWAY. You said you go into the hedging markets for self-preservation?

Mr. MURRAY. Yes, sir.

Mr. JACOWAY. I want to ask you what you think of this class of men, who are not in the milling business or in any other business, but who sit around a room and gamble on a chalk mark put up on a blackboard, which is purely speculative gambling; what influence do they have on the bona fide hedge in wheat or the spot market?

Mr. MURRAY. I do not think that that kind of buisness has any appreciable effect on either the board of trade business or the values of grain.

Mr. JACOWAY. You stated that in your prepared statement. What are your processes of reasoning to reach the conclusion that it does not have any effect?

Mr. MURRAY. My reason is that I do not think the volume of such business is large enough. I admit, from what I have heard and seen, that there is a certain amount of the kind of trading you mention.

Mr. JACOWAY. I assume that your going into the future market is as a matter of self-preservation?

Mr. MURRAY. Yes, sir.

Mr. JACOWAY. And your conscience is clear on that proposition?

Mr. MURRAY. Yes, sir.

Mr. JACOWAY. You would not call yourself a gambler?

Mr. MURRAY. No, sir; we avoid gambling.

Mr. JACOWAY. If that is legitimate business, isn't this other business I speak of legitimate?

Mr. MURRAY. No, sir; I do not think so.

Mr. JACOWAY. Why not?

Mr. MURRAY. I think that any man has a right to buy wheat if he wants to.

Mr. JACOWAY. But where he does not expect to buy it, where he does not expect to deliver, it and does not expect to receive it, what about that condition?

Mr. MURRAY. That is merely a different way of stating it.

Mr. JACOWAY. What effect does that have on the man who actually produces?

Mr. MURRAY. I think very little, but, if any, it is a beneficial effect.

Mr. JACOWAY. Why beneficial?

Mr. MURRAY. Because, we will say, the average speculator in ninety-nine times out of one hundred is a bull, he buys.

Mr. JACOWAY. He has to sell before he buys if he does buy?

Mr. MURRAY. No, sir; he buys. Therefore he provides a market to a certain extent for the farmer's product.

Mr. JACOWAY. When spots and futures are together either in grain or cotton, it is correct to say that that condition of affairs inures to the benefit of the producer, is it?

Mr. MURRAY. Yes, sir; I believe it is.

Mr. JACOWAY. That is on account of the spread; it stops fluctuations in the market more or less and makes the market more stable?

Mr. MURRAY. Yes; it provides a market; it provides a safety.

Mr. JACOWAY. If that is so can you suggest to this committee any provision that can be written into a law to bring that about, to let the future and the spot markets go along as closely together as possible?

Mr. MURRAY. I do not know that I got your first question correctly?

Mr. JACOWAY. My question is this, that it is admitted, I believe, both by the grain trade and the cotton trade, that when futures and spots are close together it prevents a condition of affairs that inures to the benefit of producers of wheat and cotton. Do you say that is right?

Mr. MURRAY. No; I did not get you right when I answered before. I think it makes very little difference. The producer is interested in the spot value of wheat.

Mr. JACOWAY. Is it your idea or not, if you cut out this class of people who speculate or gamble, and who do not do any other business or do this business for any other purpose than self-preservation, that it would be injurious to the stability of the market?

Mr. MURRAY. Yes, sir.

Mr. JACOWAY. To whose benefit does that inure?

Mr. MURRAY. I think it would be to the detriment of the farmer if you cut it out.

Mr. JACOWAY. You think it is to the benefit of the farmer to sell his product 14 to 16 times over before the grain is ever thrashed or the cotton is ever ginned?

Mr. MURRAY. No; I would not say that.

Mr. JACOWAY. That is what is done.

Mr. MURRAY. I do not know that that is done.

Mr. JACOWAY. I assume that it is. That has been passed around this table for the last 10 years as being a fact. I have never looked it up, but I understand that is accepted as a fact.

Mr. YOUNG. This is the second hearing I have gone through. Some years ago I passed through a long hearing on the cotton question, involving this same subject. Now we are passing through this wheat period. I was always able to find a record where a spot transaction seemed to be a book transaction, but I have never seen a man, no matter whether he came here representing the cotton exchanges or the wheat exchanges, who seemed to have any record or knowledge

of the real sales and the fictitious sales, as to details. Now, if a contract is to be made for wheat to be bought or wheat to be sold, but which does not really involve, in the mind of either party, the actual delivery or receipt of wheat, but is purely a gambling transaction, why can't we get such a record?

Mr. MURRAY. There is a record of every transaction made on the Chicago Board of Trade in the office of the commission house handling it.

Mr. JACOWAY. Is that a matter of record?

Mr. MURRAY. Yes, sir; every man who makes a trade on the board of trade gets a statement, not only as to the price, but he can have the time at which the transaction was filled, and the name of the buyer to whom sold.

Mr. YOUNG. That is what I want. Can this committee find the source of information——

Mr. MURRAY (interposing). Absolutely.

Mr. YOUNG. Where every bushel of grain has been dealt in, whether a real grain transaction or a fictitious transaction; can we get that information?

Mr. MURRAY. I would say so. I think it was answered by Mr. Gates on yesterday.

Mr. PURNELL. You can only get it through the courtesy of the individual members of the board of trade. The board itself does not have such a record?

Mr. MURRAY. No; the board itself does not pretend to keep a record of that kind. It is a matter of private contract.

Mr. MCLAUGHLIN of Michigan. Is there anything put into those contracts to indicate whether it is a speculation, or whether delivery of grain is contemplated?

Mr. MURRAY. No. I am not a commission merchant, but I believe their forms provide that the contract is for actual grain and subject to delivery.

Mr. PURNELL. Do you differentiate between speculation and gambling?

Mr. MURRAY. I heard Mr. Gate's explanation on yesterday.

Mr. PURNELL. That is what prompted my question. I was very much interested in Mr. Gates's statement, that there is a difference.

Mr. MURRAY. I believe that the man, not necessarily engaged in the grain business or the wheat business or any branch of commerce, has a perfect right to buy or sell wheat if he wants to. I think you have that privilege as an American citizen, and I think, although I never speculate on my own account under any circumstances, that it has a stabilizing effect on the market.

Mr. PURNELL. Yes; he has a right to buy wheat, but——

Mr. YOUNG (interposing). That might be true if there was any power in the system of the doing of the thing whereby the real gambler on the exchanges, by his operations, would not be permitted to affect the poor devil who is producing the food supply of the people. If his operations are to such extent as to injure the man who has put his sweat and blood into the production of the food supply of the people, what then?

Mr. MURRAY. I would say that that kind of citizen was a bd actor, and he should not be upheld

Mr. YOUNG. And if under the present system that is happening it ought to be stopped?

Mr. MURRAY. There ought to be some way found of controlling it through the machinery that is used for the benefit of the public.

Mr. YOUNG. Wouldn't there be a more helpful situation if we had a requirement, in a law somewhere, that would force this information to be given out from the various exchanges, showing the large volumes dealt in daily on the exchanges, and whether it be spot grain or futures?

Mr. MURRAY. I do not know that we would want our business given out to the public. We own our business, so to speak, have built it up, and it belongs to us, and if we to-day are buyers of oats against a foreign order, that information is not available to our competitors, and I do not think it should be.

Mr. YOUNG. I do not mean as to names. What I am after is this: That there should be a power somewhere under the law that could force a disclosure of the real volume of business done, and if by getting those facts it should be found that the gambling elements, whether on the wheat or the cotton exchanges, were so conducting their transactions, under the present methods, as to affect the time of the cotton or wheat grower, and the time of his children in producing the raw product which the world must have; and perhaps affecting the situation to such extent as to even destroy the man as a producer, do you not think the Government ought to enter into an attempt to remedy the matter, if such abuse is doing this?

Mr. MURRAY. I think the Government ought to know whether such abuses exist or not.

Mr. YOUNG. And ought I not to know, as a producer?

Mr. MURRAY. Yes, sir.

Mr. YOUNG. As a cotton producer in Texas shouldn't I know if there are gamblers in New York who are selling my cotton over and over again during the period of 12 months, with the result that I do not know what price I am to get for my cotton when it is marketed? Ought I not to know whether there is something existing that might ruin me?

Mr. MURRAY. Oh yes. The board of trade has always maintained—and I am speaking as a private citizen and not as a member of the board of trade; and I am not here to defend that institution but merely to state our method of doing business for your information—the board of trade in Chicago has always maintained that there is no secrecy and no mystery about its business, that it is an open book.

Mr. MCLAUGHLIN of Michigan. Isn't it true, that respecting all kinds of transactions on boards of trade, they have the same contract?

Mr. MURRAY. No, sir; many different kinds of contracts are made.

Mr. MCLAUGHLIN of Michigan. They are all the same with regard to conditions of delivery, aren't they?

Mr. MURRAY. You must remember, first, that the board of trade provides a means of merchandising grain; that future trading is only one of the elements; that there is a tremendous cash business that goes on all the time in connection with the daily work on the board of trade. A contract might be in the shape of supplying grain to the mill. The exchange is a meeting place for sellers, who have the grain which ultimately goes to the mills; or it may go for export, may go to New England to the feeder, or it may go to the southern planter. These avenues of trade meet there, and the futures are simply a part of the entire machine. The contracts that are made on cash grain

vary with the conditions surrounding any particular contract. One man may sell for 10 days, and another man may sell for 30 days, and another man may sell for 60 days, and another man may make a contract for a period of several months.

Mr. HULINGS. All of them provide for actual delivery of grain if it is insisted on, don't they?

Mr. MURRAY. They all provide for actual delivery of grain at the end of the contract.

Mr. HULINGS. But those men know that actual delivery will not be insisted upon, and there are about 14 times the number of transactions had where there is no change of ownership as there are where there is actual delivery?

Mr. MURRAY. If you will permit me to correct you on one point: You state that when a man enters into such a contract he knows that no delivery is contemplated. Did I understand you to make that contention?

Mr. HULINGS. Yes.

Mr. MURRAY. We buy grain in futures frequently when we expect to take delivery, but the man who sells to us does not know us in the transaction, and we do not know him except that the commission house is qualified to protect that transaction.

Mr. JACOWAY. How often do you get delivery?

Mr. MURRAY. We took delivery in the month of December of, I think, about 40,000 bushels of wheat from Minneapolis.

Mr. JACOWAY. What percentage when you go on the future market?

Mr. MURRAY. How is that?

Mr. JACOWAY. What percentage, when you go on the future market, of the cases you deal in, do you get actual delivery as compared with other transactions?

Mr. MURRAY. Oh, very small.

Mr. JACOWAY. What percentage?

Mr. MURRAY. It varies in different years. It might be as high as 20 per cent some years, and it might run down to as low as 2 per cent other years.

Mr. MCLAUGHLIN of Michigan. When you need actual grain now to be put through your mills, do you go on the board of trade to buy it?

Mr. MURRAY. Yes, sir; we have three buyers on the board of trade every day.

Mr. MCLAUGHLIN of Michigan. When you want actual grain for your mill?

Mr. MURRAY. Yes, sir.

Mr. MCLAUGHLIN of Michigan. You go on the board of trade and buy it?

Mr. MURRAY. Yes, sir.

Mr. MCLAUGHLIN of Michigan. You make a contract with somebody. Suppose he does not want to deliver the grain to you?

Mr. MURRAY. That is up to him.

Mr. MCLAUGHLIN of Michigan. And if you force him to deliver, he is permitted to deliver a grade of wheat that you do not want?

Mr. MURRAY. No, sir.

Mr. MCLAUGHLIN of Michigan. Well, there are certain variations that he can deliver?

Mr. MURRAY. We know those variations when we make the contract. If we do not want the grain that is delivered, we sell it future. That is our protection, and that is what we are in business for. If we know that the grain is there and is the kind of grain we want, we stand for delivery and get it.

Mr. McLAUGHLIN of Michigan. Your business is a little peculiar. You can use in your various works different grades of grain?

Mr. MURRAY. Yes, sir.

Mr. McLAUGHLIN of Michigan. Suppose you wanted a particular grade of grain and no other, would you go on the board of trade and buy it?

Mr. MURRAY. No; not necessarily. Your question can be answered in two or three different ways. In the first place, say we have made a sale of products calling for a certain quality of grain. That is the basis of your question?

Mr. McLAUGHLIN of Michigan. That is, with your customer out in the country?

Mr. MURRAY. Yes.

Mr. McLAUGHLIN of Michigan. All right. Go ahead.

Mr. MURRAY. That might be spring wheat from North Dakota. I may not know at the moment where I can get that spring wheat. I know I can get it if I am given time, but in order to prevent any risk of the price going up before my sale is covered, I immediately buy an even quantity of some future, so that my books are even.

Mr. McLAUGHLIN of Michigan. As a protection?

Mr. MURRAY. Yes, sir. Then I go out and dig up the grain to fill that particular order, and when I have got this I sell my future.

Mr. McLAUGHLIN of Michigan. Your transaction on the board of trade then is fictitious?

Mr. MURRAY. I would say it is not fictitious but very real.

Mr. McLAUGHLIN of Michigan. It does not contemplate the acceptance of the grain?

Mr. MURRAY. Not in that particular case.

Mr. McLAUGHLIN of Michigan. The form of contract that you make in the two instances is the same?

Mr. MURRAY. Whether we take delivery or not?

Mr. McLAUGHLIN of Michigan. Yes.

Mr. MURRAY. Absolutely.

Mr. McLAUGHLIN of Michigan. Then anyone keeping a record of contracts made does not know whether a trade is for the one purpose or the other?

Mr. MURRAY. No, sir.

Mr. McLAUGHLIN of Michigan. How could we find out from examining the books of those dealers which trades were fictitious and which contemplated actual delivery of grain?

Mr. MURRAY. You have characterized two different kinds of trades which do not fit in with my understanding. I do not consider any trade made on the board of trade is fictitious. But we will consider that one trade is a trade with a man who does not expect delivery. The commission man knows when he took the order, say it is from the Quaker Oats Co., that it is from an institution that is dealing in certain lines, and yet he does not know whether we are speculating or not. He does not ask us.

Mr. McLAUGHLIN of Michigan. When these gentlemen on the committee, Mr. Young and Mr. Jacoway, spoke about getting the record which will indicate which transaction is a speculation and which transaction is a gamble and which transaction is really bona fide, my understanding of the situation is such that I want to bring this point out: I want to ask you if the contracts are not all in the same form, and the records kept in the same way, and anyone looking them over would be unable to tell which was a gambling transaction and which was a speculation and which was a manipulation, and which was an actual transaction?

Mr. MURRAY. I do not know of any way. I do not know that a commission house has any jurisdiction over it.

Mr. McLAUGHLIN of Michigan. When you give an order to a commission house to bury grain for you does the man representing that house ask you: "Do you want this grain actually delivered?"

Mr. MURRAY. No. He knows that we are obligated to take that grain and——

Mr. McLAUGHLIN of Michigan (interposing). Yes, he knows that you have some deal in the background, and he does not ask you the particulars of it or what you are going to do with the grain?

Mr. MURRAY. No. And we would not feel like telling him if he did ask. That is our business.

Mr. McLAUGHLIN of Michigan. In all your transactions with your commission men they are practically the same, regardless of your intentions?

Mr. MURRAY. Yes, sir; absolutely. They do not know, and we do not know ourselves always.

Mr. McLAUGHLIN of Michigan. The commission man you employ finds somebody to take the other end of your transaction; that is all he knows?

Mr. MURRAY. Yes, sir.

Mr. McLAUGHLIN of Michigan. Does he always know even who it is?

Mr. MURRAY. He knows the moment that the trade is completed.

Mr. McLAUGHLIN of Michigan. Do you know?

Mr. MURRAY. We know the next morning when we get our confirmation.

Mr. McLAUGHLIN of Michigan. Do you get the name of the man who buys?

Mr. MURRAY. Yes, sir; the name of the man who sold it to us, if we are buying.

Mr. McLAUGHLIN of Michigan. The man at the other end is a commission man?

Mr. MURRAY. Or a large dealer who may clear us on trades.

Mr. McLAUGHLIN of Michigan. Or he may be a commission man representing somebody else?

Mr. MURRAY. Yes, sir.

Mr. McLAUGHLIN of Michigan. Do you know that somebody else?

Mr. MURRAY. I do not know the somebody else, no; in other words, we do not know who the commission man's customer is.

Mr. McLAUGHLIN of Michigan. You simply know that your commission man has carried on a transaction with another commission man?

Mr. MURRAY. Or a clearing house company engaged in that business.

Mr. McLAUGHLIN of Michigan. There are a great many such cases?

Mr. MURRAY. Yes, sir.

Mr. McLAUGHLIN of Michigan. And there is no record made of the intentions of either party to the contract, is there?

Mr. MURRAY. I do not suppose so, but I do not know.

Mr. McLAUGHLIN of Michigan. So that when these gentlemen speak about getting information as to the nature of the deals when we are talking about that we are talking about something that can not be done, aren't we?

Mr. MURRAY. I do not believe that the present machinery of the exchanges contemplates any information of that kind.

Mr. McLAUGHLIN of Michigan. Do you know of any machinery on the board of trade that could be set up that would result in keeping that information or of recording that information?

Mr. MURRAY. No; I do not know that there is anything that would compel a commission merchant to attempt to make his client disclose what his intentions were regarding a purchase or a sale on the board of trade.

Mr. McLAUGHLIN of Michigan. It is true that some transactions on the board of trade, by one party entering into them at the time they are made, contemplate actual delivery, but that even then at the end of the transaction delivery is not made?

Mr. MURRAY. Do I understand you to ask whether one of the parties contemplates a delivery but the actual delivery is not made?

Mr. McLAUGHLIN of Michigan. Yes.

Mr. MURRAY. No; there are no defaults on the board of trade, except an occasional case where some accident has happened.

Mr. McLAUGHLIN of Michigan. Defaults are met by the payment of money?

Mr. MURRAY. You can not settle a contract on a board of trade without delivery if delivery is wanted. The rules of the board of trade protect us in that position.

Mr. HULINGS. You can compel delivery?

Mr. MURRAY. Oh yes, absolutely. That is the basis of our contract.

Mr. McLAUGHLIN of Michigan. Some times when you make a transaction there and contemplate delivery, if the other party to it asks you to accept money instead of delivery, that is done, isn't it?

Mr. MURRAY. No, sir; not with us.

Mr. McLAUGHLIN of Michigan. You are in actual business of using grain, but a good many people make transactions exactly similar to yours except that back of them there is no business of future grains, and yet they make the same kind of transaction as you do, don't they?

Mr. MURRAY. Yes, sir.

Mr. McLAUGHLIN of Michigan. Sometimes a man in that position makes a transaction contemplating delivery, but even then actual delivery is not made?

Mr. MURRAY. Yes, sir.

Mr. McLAUGHLIN of Michigan. Is there a difference between these two transactions so far as the form of contract is concerned?

Mr. MURRAY. No. My experience is that usually where a case of that kind happens, and where it is adjusted, it is that a man makes a contract with the intention to deliver, but that for some reason in the back of his head he finds he can not deliver, and he goes into the pit and buys an equal quantity of wheat on some contract, and that is turned over to the party with whom the original contract was made. In other words, it is simply finding somebody else to fill the contract he expected to fill.

Mr. MCLAUGHLIN of Michigan. My limited knowledge of the way this business is conducted makes it difficult for me to ask questions in the proper way. But as I understand these contracts, of all kinds, they are practically similar in form, and any record of them would not disclose the nature of any particular transaction?

Mr. MURRAY. No, sir.

Mr. MCLAUGHLIN of Michigan. So when we talk about getting a record of the actual transactions, and use that term to speak of one kind of deal and another—a real transaction, or a fictitious transaction, or a gambling transaction—they are all practically in the same form, and there is nobody, even if he wished to do so and kept a record, who would be able to disclose the information of which these gentlemen on the committee are speaking?

Mr. MURRAY. I do not think the information is available, because only the man who gives the order knows his intention when he places it.

Mr. JACOWAY. Did you ever lose any money on a hedge?

Mr. MURRAY. Yes; that is, we have paid out money on a hedge.

Mr. JACOWAY. What entry do you make on your books, and who pays it?

Mr. MURRAY. The company stands it.

Mr. JACOWAY. Do not you pass it on to the consumer?

Mr. MURRAY. It is all a part of our product.

Mr. JACOWAY. Your corporation as a corporation does not lose what you lose on a hedge?

Mr. MURRAY. Oh, no. Our product is advanced in price in accordance with the future.

Mr. JACOWAY. Where you have a contract and ask for delivery and you can not get the delivery as you have contracted for, how is that transaction adjudicated? Is it on a fixed difference or according to the commercial difference?

Mr. MURRAY. On the basis of the commercial value of the grain, in the case of a default on the board of trade.

Mr. JACOWAY. Who attends to that?

Mr. MURRAY. A committee is appointed by the president and confirmed by the board of directors; a committee of three.

Mr. JACOWAY. That is, a committee of the board of trade?

Mr. MURRAY. Yes, sir.

Mr. JACOWAY. They adjudicate the difference there by what is known as a fixed difference?

Mr. MURRAY. I did not catch your question?

Mr. JACOWAY. Where you buy a specific quantity of grain of a certain grade, and the man you buy from can not deliver it and he delivers, we will say, a grade below that, that matter must be adjusted in some way?

Mr. MURRAY. Yes, sir.

Mr. JACOWAY. Is that adjusted by a committee appointed by the board of trade?

Mr. MURRAY. No.

Mr. JACOWAY. Who is it adjusted by?

Mr. MURRAY. If I understand you correctly now you are quoting what we would call a cash grain transaction?

Mr. JACOWAY. Yes.

Mr. MURRAY. Where I have bought a certain quantity of No. 3 corn and delivery is made of No. 4 corn?

Mr. JACOWAY. Yes.

Mr. MURRAY. That difference is usually adjusted between seller and buyer right on the board of trade, and is adjusted on the basis of the respective prices.

Mr. JACOWAY. Suppose the buyer and the seller can not agree?

Mr. MURRAY. Then it is settled by a board of arbitration.

Mr. JACOWAY. Who composes that board of arbitration?

Mr. MURRAY. There is a board, composed of 10 members, of which 5 are selected each year.

Mr. JACOWAY. Suppose you sold on the board of trade this morning to Gen. Hulings 40,000 bushels of wheat——

Mr. MURRAY (interposing). And he is an exporter or a flour buyer, which?

Mr. JACOWAY. Yes. You will then go on the board of trade and hedge on that, will you?

Mr. MURRAY. The minute that the transaction is assured we protect ourselves either by buying cash wheat or a future.

Mr. JACOWAY. Do you buy that wheat just as low as you can, or do you buy it just for the purpose of protecting yourself?

Mr. MURRAY. We would buy it as low as we could.

Mr. JACOWAY. Then you are a bear on the market?

Mr. MURRAY. I am a buyer at the best possible price.

Mr. JACOWAY. Suppose 20 other gentlemen representing equally big interests as you do, would do the same thing, were to bear the market, in order to get it as low as you could?

Mr. MURRAY. I can not bear the market. I want to make a purchase, and I wait for somebody to make an offer to sell.

Mr. JACOWAY. You are trying to get it lower than the price for which you sold it to Gen. Hulings?

Mr. MURRAY. As low as I can.

Mr. JACOWAY. Just as low as you can?

Mr. MURRAY. That is good merchandising.

Mr. JACOWAY. Suppose that 30 or 40 other men, just as potential in the wheat industry, would do the same thing; what effect would that have on the price of wheat in so far as the man who produced it is concerned? Would it give him a better price or a lower price?

Mr. MURRAY. You are promising a situation that seems to me does not exist.

Mr. JACOWAY. I think it does exist, and that is the reason I am asking the question. Would it be possible for 40 millers like yourself, representing vast volumes of wheat purchases, to go on the board of trade or in any other way and bear the market down?

Mr. MURRAY. We could do it very much better——

Mr. JACOWAY. (interposing). Answer the question yes or no. Would it be possible for you to do it?

Mr. MURRAY. No.

Mr. JACOWAY. All right. That is all I wish to ask you.

The CHAIRMAN. How many grades are deliverable on a contract?

Mr. MURRAY. In Chicago?

The CHAIRMAN. Yes.

Mr. MURRAY. On spot grain?

The CHAIRMAN. Wheat.

Mr. MURRAY. I think there are some 22 or 23 different grades.

The CHAIRMAN. What is the commercial difference between No. 1 and No. 3 of the various grades?

Mr. MURRAY. That is handled very largely in all of the markets by sample.

The CHAIRMAN. I refer to grades.

Mr. MURRAY. Let me make myself clear: You understand that one car of No. 3 wheat might be worth from 8 cents to 10 cents a bushel more than another car of No. 3 wheat.

The CHAIRMAN. What class of wheat do you prefer to take up, spring or red wheat?

Mr. MURRAY. It follows all the way through. The milling value is not determined completely by grades.

The CHAIRMAN. What is the difference between No. 1 dark winter wheat and No. 3 of the same class?

Mr. MURRAY. On the Chicago Board of Trade I think it is 8 cents on the delivery basis.

The CHAIRMAN. What about the commercial basis?

Mr. MURRAY. The commercial basis differs with the quality of the individual lot of wheat.

The CHAIRMAN. You are buying it by grades subject to inspection?

Mr. MURRAY. I should say that 8 cents is a very fair difference there.

The CHAIRMAN. How about No. 1 and No. 3 hard winter wheat?

Mr. MURRAY. I think the delivery basis is about 5 cents, but I am not sure.

The CHAIRMAN. The commercial difference and not the fixed difference.

Mr. MURRAY. The commercial difference is from 3 cents to 10 cents.

The CHAIRMAN. And the fixed difference is 5 cents?

Mr. MURRAY. Yes, sir.

The CHAIRMAN. How about yellow hard winter No. 1 and No. 3?

Mr. MURRAY. It varies in the same way, of from 3 cents to 10 cents a bushel

The CHAIRMAN. And red wheat in the same way?

Mr. MURRAY. Yes, sir.

The CHAIRMAN. I understood you to say that the difference in value is subject to arbitration?

Mr. MURRAY. Where the parties are unable to make a settlement between themselves, they have recourse to arbitration.

The CHAIRMAN. As to grades or differences?

Mr. MURRAY. As to the completion of the terms of their contract

The CHAIRMAN. The commercial differences?

Mr. MURRAY. Yes, sir; in that way, too.

The CHAIRMAN. Mr. Gates stated on yesterday it was a fixed difference?

Mr. MURRAY. That is on delivery of a future contract.

Mr. MURRAY. As to delivery on a future contract it is fixed by the rules and regulations of the board of trade.

The CHAIRMAN. If the difference is 5 cents as fixed and the commercial difference is 10 cents, there is a difference of 5 cents between the fixed and the commercial difference?

Mr. MURRAY. Yes, sir. But let me mention that I said there was a difference of from 3 cents to 10 cents in the way of a normal commercial difference in one grade as compared with another of different grades of the same wheat.

The CHAIRMAN. We will assume that the commercial difference is 10 cents and the fixed difference is 5 cents. You have a contract——

Mr. MURRAY (interposing). I said from 3 cents to 10 cents, but that applies at the same time to all of them. That is a question that applies to the quality of the grain and not to period of time.

The CHAIRMAN. You buy wheat subject to inspection. The inspection is to confirm its value, whether No. 1, No. 2, or No. 3.

Mr. MURRAY. No; when you determine the grade you know the value.

The CHAIRMAN. The grade is determined No. 3 and then all No. 3 is supposed to be of the same value?

Mr. MURRAY. As a buyer I will go on the board of trade of Minneapolis, and say I want three carloads of wheat, a carload of No. 1, a carload of No. 2, and a carload of No. 3. I will look sometimes at as many as 200 or 300 samples, and I may buy one car——

The CHAIRMAN (interposing). We are getting away from grades. You are referring to samples.

Mr. MURRAY. I am telling you the commercial value.

The CHAIRMAN. You have a contract for 1,000 bushels of wheat.

Mr. MURRAY. All right.

The CHAIRMAN. And the contract price is $2 a bushel.

Mr. MURRAY. All right.

The CHAIRMAN. And No. 3 wheat is shipped.

Mr. MURRAY. All right.

The CHAIRMAN. The commercial difference is 10 cents, but the discount allowed is only 5 cents.

Mr. MURRAY. All right.

The CHAIRMAN. You accepted the wheat at a discount of 10 cents. Then you turn around and buy No. 1 wheat, which you expected to get and on which there is a premium of 5 cents more than you are allowed.

Mr. MURRAY. I do not quite follow you, Mr. Chairman. You do not stick to the actual operation.

The CHAIRMAN. I am sticking to the operation. I am not getting away from it by samples or otherwise.

Mr. MURRAY. We do not operate the way you outline.

The CHAIRMAN. Say you contract to-day for the delivery of wheat at $2 a bushel.

Mr. MURRAY. All right.

The CHAIRMAN. Then there is no premium on No. 2 or No. 3. But between No. 2 and No. 3 the commercial discount is 10 cents. It is delivered at a discount of 10 cents.

Mr. MURRAY. It is at a discount of 5 cents.

The CHAIRMAN. But you have to sell it at a discount of 10 cents.

Mr. MURRAY. No.

The CHAIRMAN. You sell that wheat and buy No. 1.

Mr. MURRAY. I do not do that.

The CHAIRMAN. You have to have No. 1 wheat, which you intend to use, and have to use in producing a certain brand of goods, so you have to have it.

Mr. MURRAY. You have stated the thing a little differently than the way I intended to put it.

The CHAIRMAN. I am stating it as the operators have been up against it.

Mr. MURRAY. No; here is your proposition in a commercial way in accordance with the way it was handled on the board of trade in Minneapolis: Say I have a contract for 2,000 bushels of wheat at $2 a bushel. The man who sold me that contract has the privilege of delivering any one of a certain number of grades. The variations in prices have been fixed on these future contracts. I know that when I make the contract. You state that the commercial value may have been 10 cents, but I stated that the commercial value in accordance with the variation in samples may range from 3 cents to 10 cents. The 5 cents which has been selected by the officers or membership of the board of trade as being a fair milling difference, usually represents the average. In other words, they do not allow for the ups and downs in quality of the same grade. It all goes into a bin, and comes out, say, No. 3, and therefore it is based on a general average. And the basis that is provided in the rules of the exchanges as nearly as possible represent the average difference between that particular grade and the grade above or the grade below. In other words, there is a milling fixed difference on No. 3 as compared with No. 2, if you always get the average grade, and that would probably range about 5 cents a bushel; and that is the reason for fixing it at that penalty in delivering grain.

The CHAIRMAN. In that delivery you would be out 5 cents a bushel?

Mr. MURRAY. Yes, sir.

The CHAIRMAN. You would have to sell it at 5 cents discount?

Mr. MURRAY. I would buy at a distant time wheat at 5 cents discount, and when I could buy just as well when I have been paying 10 cents discount, I would be 5 cents in.

The CHAIRMAN. How about the commercial value?

Mr. MURRAY. You know that in any business a buyer is just as important as a seller, and the buyer has the right to know what he is going to get. For that reason those rules and regulations are made so that when I make a contract for future wheat and intend to take delivery of it, I know exactly what the terms of my contract are. I do not know that I can be compelled to take No. 3 wheat except at a discount, which may be the market difference on the day it is delivered.

The CHAIRMAN. It is a fact that the grades deliverable at a contract price are without regard to the actual commercial value?

Mr. MURRAY. No; I do not think it is without regard to the actual commercial value.

The CHAIRMAN. I understood Mr. Gates to say that they fixed the difference?

Mr. MURRAY. Yes, sir.

The CHAIRMAN. In future cotton we have a difference fixed by the Secretary of Agriculture.

Mr. MURRAY. The commercial value as fixed on the exchanges on wheat is supposed to represent as nearly as possible to be reached in the human judgment, actual milling difference in the grain delivered.

The CHAIRMAN. It may be supposed to be so, but I understand sometimes it does not come within 10 cents of it.

Mr. MURRAY. At the present time deliveries in December to the millers on the Minneapolis Exchange, when we took delivery of 40,000 bushels of wheat, because that wheat was of better value to us than to buy wheat on the sample tables in Minneapolis——

The CHAIRMAN (interposing). It is either up or down, it is uncertain?

Mr. MURRAY. Yes, sir. But the adjustments are fixed, not without relation to the commercial value but with relation to the commercial value for a period of time rather than on individual days, as to which the board would be up against certain troubles under the basis you suggest. We might be up against competition on some days of a miller who wants to buy a certain kind of wheat, and who would bid up high in order to get it. We know now just what it is going to be.

The CHAIRMAN. If you entered into a contract for a certain kind of wheat you would not expect the seller to decide everything. In other words, if you entered into a contract for certain wheat do not you think some disinterested person should determine the difference rather than the other contracting party?

Mr. MURRAY. I think the present basis is fairer.

The CHAIRMAN. You have more confidence in the exchange than you have in any disinterested party?

Mr. MURRAY. I have confidence in the written rules and regulations as to what will be delivered. I know it can be enforced.

The CHAIRMAN. Under the cotton futures act the Secretary of Agriculture determines the difference as to cotton and he takes into consideration the situation today.

Mr. MURRAY. I think it would be found that the fixed difference is much more satisfactory.

The CHAIRMAN. You think if I should sell you 100 bushels of wheat I should fix the difference and not leave it to any independent party?

Mr. MURRAY. No; not to let you fix it. But I think the difference is fixed now by a disinterested party.

The CHAIRMAN. Who is it fixed by?

Mr. MURRAY. They are first approved by the committee which is formed for that purpose, and then approved by the entire membership of the institution by voting on the proposed rule or regulation.

The CHAIRMAN. The men on the exchange are interested parties?

Mr. MURRAY. We are all members. I am a member, and have just the same right that anyone else has.

The CHAIRMAN. So it is fair to say that under the Chicago Exchange—and I think it is true of all grain exchanges—the interested parties fix the difference, but on cotton futures they are fixed by the Secretary of Agriculture, who is a disinterested party.

Mr. MURRAY. It is fixed by the membership of the exchange.

The CHAIRMAN. They are interested parties?

Mr. MURRAY. Yes; but interested on both sides.

Mr. JACOWAY. Is there any variation in the grades on which your transaction is based? In other words, getting at your testimony you are trying to say this, if I understand: There is never any variation in the grade which is fixed before you go into the transaction?

Mr. MURRAY. There is no variation in the contract after it is made.

Mr. JACOWAY. And that is the grade?

Mr. MURRAY. The grade that you buy is determined under the rules. As it happens on the Chicago Board of Trade if I buy a contract for March wheat, a certain number of different grades of wheat are deliverable. As a miller I have to take my chance as to what grade will finally be delivered by the party making the sale. That governs the price that I am willing to pay for that contract.

The CHAIRMAN. You do not contend that the hedge is an absolute insurance against loss, do you?

Mr. MURRAY. Not an absolute insurance; no.

The CHAIRMAN. If wheat goes to a premium in the meantime there is a profit or a loss?

Mr. MURRAY. Yes, sir; a profit or a loss, according to the variation.

Mr. HULINGS. I see here in a publication by James E. Boyle, a doctor of philosophy, there seems to be an argument in favor of speculation on boards of trade. He takes the experience of one day for a study of the market. On that day there were a little less than 2,000,000 bushels of cash grain and grain to arrive sold. If I understand a number of gentlemen on these boards of trade, they have justified all these future sales on the ground that they afford an insurance, that by the use of them one can have confidence and go in and buy and know what the price of his prodcut is going to cost him, and that therefore it is a valuable insurance. How about that?

Mr. MURRAY. Yes, sir; that is correct.

Mr. HULINGS. On this same day Prof. Boyle says there were 1,830,000 bushels of cash grain sold, but there were more than eighteen times as many futures sold. In other words, 36,836,000 bushels of futures were sold on that day. Would it be necessary, in order to secure the insurance on actual transactions of less than 2,000,000 bushels to sell 36,000,000 bushels? Doesn't that show that there was a great volume of those transactions that was not necessary as a part of the trading even as an insurance, which you say is valuable?

Mr. MURRAY. You mean to say that they were a part of the cash transaction?

Mr. HULINGS. No. It would not require more than the sale of 2,000,000 bushels of futures to insure 2,000,000 bushels of actual stuff sold, whereas here 36,000,000 bushels were sold that day in the shape of futures. Does not that imply that the great proportion of the sales represented merely gambling operations?

Mr. MURRAY. If you mean trading where grain is bought or sold with the intention of settling on the difference, all right. But I do not say that they are a necessity, but they are of great assistance in the handling of 2,000,000 bushels of cash grain such as you referred to. I do say that each man that you cut out of the privilege of buying if he wants to buy, or of selling if he wants to sell, will limit the market in which the hedgers have to close one or the other side of their transactions; it will reduce the market just by that amount.

Mr. HULINGS. Do you go far enough to say that in your opinion these—gambling transactions I would call them, or perhaps we better call them for the purpose of the question, speculative transactions—are a necessary part of the business?

Mr. MURRAY. I believe they are a beneficial part of the business. I do not believe that they are necessary exactly, but I believe it would be very expensive to the farmers of the United States if the privilege to the outsider to hedge his share of the load were discontinued. I believe it would be very expensive to the farmer and the producer of the United States.

Mr. DICKINSON. Mr. Murray, will you state to the committee again the determining factor in fixing the price of your manufactured product?

Mr. MURRAY. The determining factor?

Mr. DICKINSON. Yes, sir.

Mr. MURRAY. The cost of the grain.

Mr. DICKINSON. In taking into account the price of grain, do you consider cash grain or the price of the future plus the spread between the cash and the future?

Mr. MURRAY. Plus or minus, as the case may be. It works both sides; if we have sufficient cash grain from day to day to cover our sales, then we do not trade in futures. But the moment we are unable either to buy that cash grain as we need to fill our orders, or to purchase enough in the usual way, we protect ourselves.

Mr. DICKINSON. What percentage of the time are you selling your product on the future market as stated, or on the cash market as previously stated?

Mr. MURRAY. Well, that varies with the volume of the business. At the moment, if I may cite our own particular case, we have more wheat in our mills than we have orders for flour ahead. Therefore we have March wheat sold against that surplus, and as we sell flour we buy in the March wheat. That is the situation to-day. We do that so that we may know——

Mr. DICKINSON (interposing). And the selling price of the flour must cover the cash wheat plus the spread?

Mr. MURRAY. It must cover the cost of March wheat plus the spread.

Mr. DICKINSON. Then in the milling business or in the Quaker Oats business, the future is a determining factor in the fixing of the price?

Mr. MURRAY. Yes, sir.

Mr. DICKINSON. And the variation in the future would have a tendency toward a variation of price?

Mr. MURRAY. In everything except the delivery of goods in which the price is fixed for a period.

Mr. DICKINSON. Where do manipulations usually take place, in cash or future wheat, if there is such a thing as a manipulation?

Mr. MURRAY. I take it you term manipulation where some interest is long or short on the market, and makes delivery or buys cash sales, thereby enhancing the price; or sells because they have bought too much and have to take a loss thereby forcing the price down while doing it. All these things come more or less under what may be termed manipulation. I consider it is merely revolution in the business, largely, and that manipulation is very small.

Mr. DICKINSON. Is that possible because of a future contract, or would it be possible under a hedge contract?

Mr. MURRAY. I think it would be very much worse if we had no future markets.

Mr. DICKINSON. What are the determining factors in fixing the future market?

Mr. MURRAY. In our business it is a study of the grain conditions, not only in this country but all over the world.

Mr. DICKINSON. And those conditions are sometimes misguessed or made up on poor information, and sometimes are found to be not as represented, are they not?

Mr. MURRAY. We might have a very correct view or outline of the situation to-day, and then to-morrow something might have happened in some part of the world that has upset all our calculations regarding the future. We have to watch these things, and there is no such thing as a program, covering a long period of time in the handling of our business. We have to adjust ourselves to conditions as they arrive from day to day.

Mr. DICKINSON. In the business of your concern which do you favor, a short hedge or a long hedge?

Mr. MURRAY. We have both kinds. There is no such thing as favoring either, but the question is of keeping even. There are times when our orders exceed the quantity of cash grain we have on hand, and in that case we are strong on futures. There are cases when the product coming in is in excess of orders for manufactured products, and then we are short on futures against that surplus.

Mr. DICKINSON. Would a fixed period handicap your business?

Mr. MURRAY. Very materially.

The CHAIRMAN. We are very grateful to you.

Mr. MURRAY. I am much obliged to you gentlemen.

The CHAIRMAN. The committee will stand in recess until 2 o'clock.

(Thereupon, at 12 o'clock and 30 minutes p. m., the committee recessed until 2 o'clock p. m.)

AFTER RECESS.

The committee resumed at 2 o'clock p. m., pursuant to recess, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. We will hear from Prof. Boyle, of Cornell University.

STATEMENT OF JAMES E. BOYLE, PROFESSOR OF AGRICULTURAL ECONOMICS, CORNELL UNIVERSITY, ITHACA, N. Y.

Prof. BOYLE. Mr. Chairman and gentlemen of the committee, I wish to thank the committee for the privilege of being here for these hearings, and particularly for the invitation to appear before you to-day. I am passing through the city on my way to Baltimore to visit some of my family there, and I am certainly happy to be here, more especially for what I can hear than for what I can say to you gentlemen.

The CHAIRMAN. Will you state your full name, Prof. Boyle, and your connection with the university?

Prof. BOYLE. James E. Boyle, agricultural economics, Cornell University, Ithaca, N. Y.

I will say at the outset that I am interested in this question of the grain trade primarily as a student and teacher of economics, that is, I am somewhat of a disinterested spectator, so far as the grain trade is concerned, and so far as the farmer or producer is concerned. However, I do not look at this matter merely as a statistician sitting at his office desk in the city. I think I do feel somewhat of a warm interest in the farmers' viewpoint, due to the fact that my original home was on a Kansas farm, and to that farm I return every year, and do keep in touch, therefore, with the grower of the grain. So, while I try to be disinterested, as I say, if I have any sympathy in this matter, any feeling in this matter, I suspect it would go toward the farmer.

There is one very interesting thing about this grain trade, and that is that every few years we have an investigation. Now in the year 1917 the prices were too high for wheat—so the consumers thought—and they came down to Washington and secured a joint investigation by the Bureau of Markets and the Federal Trade Commission, involving a cost, I suppose, of several hundreds of thousands of dollars. And then in 1920 the prices were too low, apparently, and they called for another investigation on the part of the Federal Trade Commission.

Now whether the prices are too high or whether the prices are too low, in the judgment of either the consumer or the producer, the point is that they blame the marketing machinery for this. They do not blame the conditions of production, but they blame the marketing machinery.

It happens that the grain trade is organized in such conspicuous centers, in pieces of machinery called "grain exchanges," that they make a very good target, and they get the criticism. As President Gates remarked yesterday, it has been true for a long time.

I was just thinking of a wonderful oration coming down to us from ancient Greece, made by Lysias, the great Greek orator who lived 300 years before Christ. The price of grain in Athens got too high, and he made a speech in which he advocated putting the grain dealers of Athens to death, and as a matter of fact they did proceed to execute the grain dealers. But of course that did not have any effect in the way of reducing the price of grain.

Mr. TINCHER. The grain went higher, didn't it, after they had executed those grain dealers? Now, as a corrective measure, would you recommend any such practice as that?

Prof. BOYLE. Well, hardly. I should prefer to look upon the grain dealer as a tax collector, a sort of a necessary evil. We have not been able to get a substitute for the grain dealer as yet. I believe the grain dealer is as necessary as the tax collector, although we have been complaining about both.

Now, in the limited time before me, Mr. Chairman—and I want to finish in one hour, if I can, including in that time the answering of any questions which you have to ask me—I want to present only three phases of this question.

First. What constitutes the correct market price for wheat? Since we are talking about fluctuations and stabilizings in price we must have in mind some point where we would like to have the price put.

Second. The big volume of future trading.

Third. The relation between speculation and the cash grain trade.

Now, coming back then to point 1. What kind of a price would the people be satisfied with? We know the farmer wants a high price. He is not satisfied with a low price. We know that the consumers who are in the vast majority want cheap bread—they want a low-priced wheat.

The question is, How can we reconcile these two interests? How can we get the correct price, the right price, the proper price for wheat?

Now, there should be some principle that would apply to this which should be correct, and I believe you men would agree that we should have such a price as would correctly reflect supply and demand. That would be an equilibrium price. It would move into consumption the whole crop, whether large or small, without a carry over, without a shortage, without a loss. In other words, the correct price is not necessarily very high or very low. It may be either high or low. It is that price which will represent correctly actual supply and demand factors.

That being true, and I believe you will agree with me that it is. price should fluctuate as supply and demand fluctuate. Now, if supply and demand fluctuate from day to day, price should respond accordingly. If supply and demand fluctuate from hour to hour. price should fluctuate accordingly.

Now it sounds very simple to talk about supply and demand, but when you get right down to the point, to say exactly what you mean by these two factors, is rather a complex matter.

Now I wish in the fewest possible words to consider at this time the question of what constitutes supply and demand.

At first glance the test of registering supply and demand looks like a simple one indeed. A prominent member of one of our agricultural colleges, for instance, recently published this statement in a bulletin:

> The demand for wheat is fairly constant and the supply can easily be ascertained these days with telegram, cable, and wireless.

Now most of us believe that to be a fact.

Then he goes on.

> Then why not a fairly steady price for wheat, based on supply and demand?

But the subject is not so simple as that. A little effort or honest, clear, and sustained thinking will show the complex nature of the subject.

The first question is: What is supply? Is it the crop? If so, no one knows exactly what that is, and even the Government crop estimates change from month to month.

Does it include the carry over from the old crop, and if so, how much is that?

Does it include the crop in the rest of the world, particularly of our five biggest competitors—Canada, Argentina, Australia, India, and Russia?

But here the new crop is being harvested in one or more countries every day in the year, so that the "supply," meaning the "crop," is literally changing every day in the year. Traders do not face the actual supply but the estimates of the supply, and these estimates change daily, even hourly, with new information.

As a matter of fact, "receipts" at the market constitute a more important "supply" factor than the "crop," and back of "receipts" is the so-called "visible supply"—grain actually in terminal elevators. Back of this is the estimated holding in country elevators—some 20,000 of these houses—and back of these is the estimated holding on the farms—some two or three million of these. But the farm holdings are partly for seed and feed, and hence are a very indefinite "supply" factor. Indeed, the farmer himself may change his mind about the amount of wheat he will sell and the time he will sell. Obviously, then, the "supply" of merchantable grain which may come to the market, which is important in price making, is not definitely known, and must be estimated from day to day by the trade according to available information.

Neither is the demand "fairly constant," as the bulletin above quoted claims. The biggest buyers are the millers, since most wheat goes into bread. Thus the consumption of wheat by American mills in July, August, September, and October of 1920 was 50,000,000 bushels less than for the same period of 1919. Flour sales had fallen off and wheat purchases fell off accordingly.

I want to elaborate this demand coming from the millers just a little bit, giving you statistics as to the production of flour mills, because this is typical of the demand for flour, which represents the demand for bread.

I will give you some figures from the Duluth-Superior flour mills covering the crop year of 1916, and you will notice the wide fluctuation in the output of those mills by months. I have it in thousands of barrels.

For example, 1916, September output was 122,000 barrels. Running on then, the next month, October, it was 127,000. Then in November it was 138,000, and then in December it dropped to 114,000. The next month, January, 1917, it dropped to 46,000, which is considerably less than half of the month before. The next month, February, it dropped to 40,000. In March it went up to 72,000. Then it dropped in April to 61,000, and in May it went up again to 99,000. In June it was 116,000, in July, 84,000, and in August, 72,000, and so on through the year, showing variations from a low point of 40,000 barrels to a high point of 138,000 barrels, or over three times as much. Now those are the facts of the market to be taken into consideration.

Just a little bit more on that same subject. I have one table here which I would refer to which shows the flour output by weeks, from the Central States mills, and the striking thing about this table is the tremendous fluctuation from week to week in the output of the mills, who are, of course, the biggest buyers.

Taking all the mills in all the Central States for the calendar year 1917, and on the basis of the per cent of full capacity in which they operate, the figures are as follows:

They started in the first week in January running 42 per cent of full capacity. In the next week 63 per cent of full capacity. In the next week it has gone up to 73 per cent, and in the last week in January it has dropped to 60 per cent.

In the first week of February, 1917, it has dropped to 48 per cent. The second week, 51 per cent; the third week, 40 per cent; and the fourth week, 45 per cent.

In the first week in March, 1917, it was 43 per cent. The second week, 49 per cent; the third week, 49 per cent; the fourth week, 48½ per cent; and the fifth week, 44 per cent.

In the first week of April it was 53 per cent; the second week, 60 per cent; the third week, 54 per cent; the fourth week, 54 per cent.

The first week of May it was 55 per cent; the second week, 53 per cent; the third week, 52 per cent; and the fourth week, 57½ per cent.

In the first week in June it was 43 per cent; the second week, 41 per cent; the third week, 34 per cent; the fourth week, from 40 to 41 per cent; and the fifth week, 42 per cent.

The first week in July it was 19 per cent; the second week, 23 per cent; the third week, 22 per cent; and the fourth week, 18 per cent.

In the first week of August it was 20 per cent; the second week, 50 per cent; the third week, 79 per cent; and the fourth week, 80 per cent.

In other words, your range, your weekly output, is from 19 to 97 per cent. In some weeks they put out five times as much as they have put out in previous weeks.

Now, just one more illustration of that, and then I will not pursue that particular point any further. When you talk about your consumption of bread being constant, it is not constant from day to day or week to week, and it shows great variation from State to State.

If we take the figures put out by the United States Bureau of Crop Estimates we have the amount of flour consumed per capita in each State in the Union. Let me show you how that varies. The figures I think were for 1917, but they do not vary much from year to year in these States.

Taking the State of Maine, it is 4.7 bushels per capita; in New Hampshire it is 5 bushels; in Vermont it is 5.4 bushels; in Rhode Island it is 4.3 bushels.

Passing on to the States in the Middle West, Ohio consumes for bread purposes 6.3 bushels of wheat per capita; Illinois consumes 5.6 bushels per capita; Indiana consumes 5.7 bushels per capita; Michigan consumes 5 bushels per capita; Wisconsin consumes 5.2 bushels per capita; and a little farther west Minnesota is up to 7.2 bushels; North Dakota, 7.2 bushels; South Dakota, 6.5 bushels; and, passing to the South, Kentucky consumes 4.5 bushels; Alabama consumes 4 bushels; Arkansas consumes 4 bushels; going to the extreme West, Montana consumes 6 bushels; Wyoming consumes 6.3 bushels; New Mexico consumes 7.9 bushels.

In other words, take the flour consumption of these different States and you find they range from 4 bushels per capita in the States of Kentucky, Alabama, and Arkansas to 7.9 bushels in New Mexico, or almost exactly twice as much in New Mexico as in those three Southern States.

Mr. TINCHER. They have biscuit in New Mexico and hot cakes in Alabama.

Prof. BOYLE. Well, hot cakes require even different kinds of wheat, but they make them up out of wheat.

Now, I pass from the millers to the exporters.

Again, the exporters are important buyers, since they take our surplus, and it is the surplus which so largely determines the price of the whole crop. Thus, the largest overseas buyer of American wheat bought heavily the first half of 1920. This buying stopped

absolutely on July 29, 1920, and during the next three or four months not another bushel of American wheat was taken by this buyer. That is the British buyer. At the end of this period this buyer was able to turn to Argentina and Australia and secure high-grade wheat below American prices.

Demand is not constant—quite the contrary. Sometimes demand can only be stimulated by price concessions; this is always true in the face of a big surplus.

Demand is also affected by the use of substitutes and alternates. In human food rye bread, or substitutes for bread, may be used more freely.

Mr. TINCHER. Would it bother you to be interrupted, Prof. Boyle?

Prof. BOYLE. No, sir; not at all. I shall be glad to answer any questions that suggest themselves to you.

Mr. TINCHER. You say that the English buyer in the latter part of July could turn to Argentina for cash wheat at a lower price than ours?

Prof. BOYLE. Yes; the Argentine price was, I think, 25 cents below ours, if I recollect correctly.

Mr. TINCHER. What year's wheat crop was that?

Prof. BOYLE. This was 1920 wheat. Well, this Argentine crop was the crop which was harvested, of course, beginning December, 1919, running up until January, 1920.

Mr. TINCHER. It was a crop of wheat that the Argentine had thrashed long before the United States crop had been taken in?

Prof. BOYLE. Yes.

Now, I was speaking of these substitutes when the wheat gets too high. For animal feeds, mixtures containing more cottonseed products, or corn or oats or linseed products and less flour-mill by-products may be used. Students of markets and not of maxims appreciate the wide range of substitutes and alternates for wheat in human and animal nutrition, and the consequent fluctuations in the demand for wheat. When the world has a crop of 3,000,000,000 bushels—as it often does—there is "demand" enough to use it all. And when the world has a crop of 4,000,000,000 bushels—as it sometimes does—there is also "demand" enough to take it all. Demand is and must be flexible and is in fact never constant.

Now, as to the market test and the Chicago Board of Trade. We have come far enough on our journey to see that the "supply and demand" test is only superficially simple. Facing the realities of life, we must admit that to apply this test to any market in such a way as actually to find out the truth is a job that can not be done with statistical and mathematical accuracy. As a concrete background to this market test let these simple facts as to the supply side of the market be borne in mind.

First. In the year 1890 the United States wheat crop was 399,000,000 bushels.

Second. Ten years later, with 14,000,000 more mouths to feed in this country, the crop had increased by 122,000,000 bushels.

Third. Five years later, with 8,000,000 more mouths to feed, the crop had increased by 170,000,000 bushels.

Fourth. Five years later, with 8,000,000 more mouths to feed, the crop had fallen off 57,000,000 bushels.

Fifth. Again, five years later, with 5,000,000 more mouths to feed in the United States, the crop increased by 390,000,000 bushels.

Our crop will range all the way from 750,000,000 bushels, as it was, I think, in 1914, to over a billion bushels, as it was in 1915. It may vary a hundred or more million bushels from year to year. We have got to bear that in mind as we go through this.

Truly both "supply" and "demand" are and must be very flexible factors, for the output of farms, unlike the output of factories, can not be definitely controlled, regardless of wind and weather and insect pests, to meet the estimated "demand" of consumers.

Now, testing this "supply" factor on the market, and especially the Chicago market, what constitutes the supply of wheat? As just stated in the preceding remarks, the term "supply" is a complex and difficult one to measure. Supply is both psychological and physical. It is psychological to the extent that it is merely the buyer's or seller's opinion or estimate of the amount of merchantable wheat on the market or ready to flow to the market. It is physical to the extent that it is a definite and stated number of bushels of merchantable wheat for sale. In reflecting the purely physical factors of supply the board of trade wheat price reflects these three distinct aspects of supply, namely, first, crop; second, the visible supply; and, third, receipts at the market.

Receipts have the most immediate effect on price; visible supply ranks second; the crop yield, as announced monthly by the United States Bureau of Crop Estimate is the underlying or third influence on price levels.

To answer the question, therefore, whether or not the Chicago Board of Trade market price for wheat does correctly reflect the supply of wheat, it is necessary to show whether or not this price does rise and fall with corresponding changes in these three supply factors.

Now I have made graphs and charts covering different periods of time, although I do not have these graphs and charts with me. But they show this, that the price of wheat on the Chicago Board of Trade fluctuates fairly accurately in response to, first; the receipt at the market; second; the visible supply; third, the crop.

I believe that is a very fair test which can be made specifically, and I believe that would show, that in a general way the prices do reflect the supply and demand factors. In other words, they meet the general test of the correct market price.

Now that concludes what I have to say on the first point. But I would just like to give one more illustration.

The fact that prices fluctuate considerably is an indication to a great many people that something is wrong with the price. On the contrary, it may indicate that the price is a right price. If we could only show that the supply and demand is changing in the same way, than that would be the correct thing to do.

Sometimes to stabilize price would be the greatest harm we could do to the price, unless we could stabilize it at the point which would reflect supply and demand. If time would allow I could illustrate that by certain experiences of farmers in selling their milk, where they fixed the price above or below the supply and demand factors. But I will not go into that here.

Just one example of price fluctuation in a field where we do not have price speculation. Take the United States Government bonds—and they are bought mostly by insurance companies and the savings banks as investments, and not as a speculative proposition—just

before the war you could buy a 4 per cent Government bond for 116, but in April of this year you could buy one of the Liberty bonds, which are 4½ per cent bonds, for 84. Now there is a spread between 116 and 84, of $32, which is quite a spread on a security which is payable in gold. A $32 spread, where there is no speculation at all, is rather a wide fluctuation, but it is due entirely to the fact of supply and demand.

Mr. TINCHER. Well, there is a slight difference between these different bonds, isn't there? One of them is taxable, and the other is not.

Prof. BOYLE. The only thing I want to illustrate is this fact, that when holders of these bonds are in need of money to invest in something else they want to get rid of the bonds for the purpose of putting their money into whatever they have need of putting their money into. There supply and demand made the price, and therefore there was that wide fluctuation. A fluctuation in price seems to be the normal, economic thing.

Now I want to come down to the next two questions, which are doubtless of more interest to you. The first of these is the question of the big volume of futures, and the second is the question of speculation.

Now, I notice that most of the debate about this table here seems to hinge on the large amount of futures trading—trading in wheat, as it is called. I want to say at the very outset that I do not use the term "trading in wheat" so much as I do "trading in wheat contracts." I think we must come to look on future trading as no dealing in wheat at all, but dealing in wheat contracts.

Now, the actual volume of trade in Chicago, that is, future trading in wheat, or wheat contracts, I have no doubt would be about 10,000,000,000 bushels a year, and the trading in corn and oats would probably give us another 10,000,000,000, giving us altogether a 20,000,000,000 volume of business. That is, it is just about four times the total crop in the United States. The total crop of wheat, corn, and oats runs about 5,000,000,000 bushels. And the total futures run about 20,000,000,000, or a proportion of 4 to 1. That large volume some look upon as a sign of something wrong with our exchanges. And that is an idea that I would like to discuss here for a moment.

Let me take up this question that may come up as to who pays for all of this. That question comes up in your mind: Who pays for all this? What is the toll levied on the country on this volume of trading?

Now, you must remember that when members trade for themselves in the pit there is no commission charged. Over half the trading is done by members for themselves, on which there is no commission collected. About 25 per cent of the trading is done by members for other members who live elsewhere, and on which there is a small commission charged. And about 20 per cent, I believe it is, is done by the nonmember, and he pays a commission of one-quarter of a cent a bushel on his trade. He can have it bought or sold, or bought and sold—a "round turn," as we call it. Now, that makes a toll on the crop of the United States, even considering the large volume of futures, if you figure it all up, of about one-quarter of a cent a bushel on the total corn, oats, and wheat crop of the United States.

Now, that particular tax is justified, and only justified, in my opinion, on the ground that it pays for the insurance on it. That enables the grain to be handled on a lower margin than it would be possible to handle it on if we did not have this particular tax.

In brief, the theory is this: If you would do away with this amount of future trading, this one-quarter of a cent tax, then you would handle the grain on a larger margin; it would cost probably 5 or 10 cents a bushel more to handle the grain.

One more thing on that subject. I suppose the idea prevails that a great many speculators on the board of trade are very wealthy men, and that there is a great drain on the country to make these immense profits. Who supports the future trading as to its gain and losses? Now, if you take an ordinary large commission firm in Chicago as an example, let us see what is done. I have one particular one in mind, which has on its books about 3,000 customers. In the course of a year most of these customers probably would trade. These 3,000 customers are scattered all over the United States, and they constitute the ordinary man in a small town very largely. I can give you concrete examples of who these customers are. Of course I will not give their names, but I will give you a general idea of the class of customers that such a commission firm has. There is, for example, a certain lawyer who has an income large enough so that he will speculate a little bit. He does not want to go into town lots or farm lands, and so he speculates in grain. One of the important speculators with this commission house is a Catholic priest located in the Middle West. Another is a Methodist preacher in a town in Indiana. And so on. And about one-third of the speculators on the books of one firm I know are farmers. These men have a little bit of money, and they are making a study of the grain trade. They think they know what the price ought to be, and they are willing to invest their money in that opinion.

And so all over the United States we have, if we gather them up, several thousand people in these small towns, and in the larger cities, that put their money into this form of speculation. And if they lose, that is where the loss falls. If this particular lawyer there that I mentioned first should put up $500 and buy some grain and the price should fall, why of course he would lose his $500. So part of the expense of this trading falls on the country in that way. It is dissipated about the country.

I wish that I were able to present the question of the large volume of future trading in the way that it appears to me after studying it for some time. I have been a student of the grain trade for a long time. I might say that I teach the subject of marketing agricultural products, and in that capacity I have been forced to investigate it more or less, having taught that subject for the last 15 years and having given quite a good deal of my time to the study of it first hand.

Now, the explanation of this large volume which satisfies me is this: You should look at the grain contract just as you look at the use of credits in banking. I may have to give you some points in connection with money and banking that you already know in making an explanation of my point. I may have to remind you of a good many things that you undoubtedly know, but permit me, in as few words as possible, to make this explanation.

When it comes to money, we have only one money in the world, and that is gold. That is money. All this "paper money" that we use is only a promise to pay money. It is credit. Now, credit is a promise to pay money. It is not money, but it is a promise to pay money. A national bank note is not even legal tender among ordinary people. It is only legal tender among national banks. But it is used, because it can be redeemed in the end.

Now, in our economical and industrial development in the United States we have developed banking to a large extent, and we do business almost entirely on the credit basis, using checks as a promise to pay money, and using other forms of credit. It is said that 95 per cent of the business done in the country is done on a credit basis by means of credit paper. Not much gold is used in the conduct of the business of the country. I note that the banks' clearings for New York City for the year 1917 were $243,000,000,000—many, many times the amount of the gold in the country.

The last time I checked up the banks they had on demand deposits, payable in cash on demand, some $20,000,000,000. At that time the amount of gold in this country was only $3,000,000,000. In other words, the credit amounted to six times the amount of the actual gold in the country. But that is the way we do business. Now that kind of credit is absolutely all right, so long as the banks of this country will make good the checks that are drawn upon them; so long as they will pay the checks.

So long as a piece of credit money, a national bank note or a greenback or any other piece of paper, currency, or a check or a draft or a trade acceptance is made good when it is necessary, we don't care how many of them are out. The only thing we ask about is the integrity of this particular kind of credit. As long as we know that we are going to get the money we do not ask for the money. So we receive checks, and pay them out, and the tremendous amount of business done in this country is transacted in that way.

Now I think it helps to make this matter clearer if we also go a little further and look at the clearing systems of the banks. Now the First National Bank in a small city out here in the course of a day may pay out $10,000 against the checks of the Second National Bank in that city. They will not go over there and collect $10,000 from the Second National Bank, although they have got the contracts or the claims which amount to contracts on the other bank.

The Second National Bank in the course of a day will very likely pay out $10,000 in checks on the First National Bank. Now to settle that, of course all they do is to get the two piles of checks together, and the $10,000 of the first offsets the $10,000 of the second. Instead of actually involving a physical transfer of $20,000 in gold, or money of any kind, the checks of the first offset the checks of the second bank.

Now it seems to me very fair to consider these promises to pay gold as analogous to these grain contracts, which are promises to pay wheat. In the one case you pay the yellow metal, and in the other case you pay the yellow grain. You pay very few of these grain contracts in wheat, because they go through clearings and are ffset in the same way that the checks in ordinary commerce are offset.

Mr. TINCHER. There is one little difference that I might suggest here. One is a medium of exchange, the other is a food product.

There might be, in the mind of some here, a slight difference between gold and wheat.

Prof. BOYLE. I want to carry this illustration just a point further. We have come to look upon one aspect of credit as very necessary. That is what we call liquid credit. The best kind of credit is the liquid credit. It moves most easily. The easier it moves and the easier it works, of course the cheaper it becomes.

The liquid credit can easily be converted into money or other property. I might give an illustration of this.

I was discussing this point at one time with a local banker in a town where I was a teacher in the university, and like most university teachers I had occasion to borrow some money at the bank. This bank at that time was carrying Swift & Co. paper on which, at that time, he was paid 4 per cent. He had quite a large amount of this paper, in fact, so much that it rather astonished me. Now Swift & Co. had loaned money and were paying 4 per cent on their loan. But when I came to loan money I had to pay 8 per cent. I asked him. "What is the reason for the difference in amount that I have to pay as compared to Swift & Co.?" He said, "Your credit is not liquid. Theirs is. If I should ever get short of money I can send Swift & Co. paper down to the First National Bank and immediately get money on it. But I can not do that with your paper."

Now it is more expensive to carry such paper as was represented by my loan. But where it is as liquid as was the Swift & Co. paper it can be carried much more cheaply. The more liquid your credit becomes, so that it can flow back and forth from bank to bank freely, the more cheaply it can be handled, and the lower the interest rate.

Now, in the grain trade they have developed the form of credit called the grain contracts, which is the most liquid contract, aside from the bank paper, that we have. In all the discussions that have heard around this table so far no one has attacked the integrity of these contracts. They have attacked the volume of them as being something bad. But they have not gone to the heart of the question, which is the integrity of these contracts. In my investigation of the grain exchanges I have never known any one of these contracts to be called in question. If anybody has wanted the grain at any time under his contract, he has gotten the grain. Now, that is what differentiates these contracts from gambling or betting, it seems to me. In fact, any one can stand on his contract. It is a matter of integrity, and he will get what the contract calls for. Or, like the bank checks between the First National and the Second National Bank, these contracts will be settled in that way, offset, as most all of them are.

Now, it does not cut any figure what the volume of these contracts amounts to, in my opinion, so long as their integrity is not called in question, and the more liquid they are the cheaper your machinery will work, and the better and the cheaper your machinery will work the cheaper your grain is going to be handled.

This is a connection between the large volume of futures and the low cost of handling wheat. The fact remains, and we must always remember it, that the handling of wheat is on a much smaller margin of cost than any other farm product. Take the hay crop, take the tobacco or the wool crop, or any other standard crop, and the fact remains that the handling of wheat is done on a lower margin. There is a connection, I think, between this idea of the liquid contract and

the low, cheap margin. Instead of being a bad sign I would look on the large volume of this business rather as a good sign, as long as it is within healthy, reasonable limits, just as the cities will point with pride to large bank clearings.

When these 12 reserve banks were located in different places, as you remember, some years ago, there was considerable rivalry between certain cities as to the location of these banks. Why should Richmond get a bank and not Galveston? And why shouldn't there be a bank in this city instead of the other city, etc.? But the cities that had the biggest bank clearings were the cities that got these banks. And the bank clearings represent, as we all know, the promise to pay, but not very much real money.

So this volume of future trading is a trading in grain contracts, and not in grain at all. But it is a trading in something which, if you want to, you can always convert into grain. And the fact that there is a big volume there I would say is certainly a healthy development, and not a bad, harmful development.

Now I must pass on to another subject. I know that I am going through this rather hurriedly, but I also know that I am to be followed be some gentlemen who are very anxious to be heard.

The other question that I want to take up is the matter of the speculation in the grain trade. We must frankly admit that the grain trade, as now carried on, is financed and carried on very largely by the aid of speculation. Now before condemning speculation I wish that some of the members would tell us what they mean by "speculation," and what they mean by gambling and betting, and so on.

In my opinion, there are two kinds of speculation; there is good speculation and there is bad speculation. And I think if we could pass a law in Congress to stop all speculation in the United States to-morrow that it would be the biggest calamity that ever happened to the United States. That is my idea of the place that speculation has and the part it plays in this country.

Now while we are on this particular phase of the subject I will give you one illustration. When I left Cornell University the other day they were celebrating the birthday of its founder, Mr. Ezra Cornell. He was a man of a Quaker family. His motto was "Firm and true," and his life was above reproach. It was said of him that his life was as pure as any man's wife.

Now this firm old Quaker had put his faith in the development of the telegraph, which was invented at about the time when he was about of middle age, in the full bloom of his activity. There came a time in the development of the magnetic telegraph when the thing was about to fall down, when it looked as if the proposition was doomed to failure. A friend of mine told me that he had had a conversation lately with Mrs. Cornell, the widow of the son of Ezra Cornell, in which she told him one story about this great man. When this crisis came in the development of the telegraph this old Quaker got together in some way or other some $40,000 in currency, in actual currency, put it in an old leather bag, hitched up his horse to the old buck-board, and went into the market and put that money into the proposition, tiding over the crisis. Now in doing that he assumed a tremendous risk, the risk of losing his whole fortune, of being wiped out entirely, but he took that risk in the hope and in the endeavor of making the telegraph go. And of course it did go,

and proved a tremendous success. And now to-day a bronze monument of this old Quaker stands on the Cornell campus.

Now in my opinion, if you do not have speculators in this country you are not going to have any new inventions, you are not going to have any new mines, you are not going to have any new cities, you are not going to have any new railroads, or any new telegraph or telephone; you are going to have stagnation. You are going to have industrial and commercial stagnation. You might as well go back to the days of ancestry worship and have it all over with, because everything will be at a standstill.

Now that I assume to be speculation in the just and proper and right sense of the word; the assumption of risks and taking of the profits or the losses that come from such risks being assumed. Of course, Ezra Cornell took a risk, and in his case large profits accrued.

On the other hand, some speculators, of course, have got to take a loss. It certainly is wrong to condemn all speculation and say that it is bad, and give it a bad name, and we ought to discriminate and not condemn the whole field of speculation as being a bad thing for the country.

Some of you gentlemen can perhaps trace your ancestors back to the *Mayflower*, as most men do nowadays, to the old Puritans. Do you realize that the Puritan fathers were sent over here by a corporation, known in those days by the technical name of "Adventurers?" Of course, they are called to-day "speculators." They were incorporated to carry on trade and fisheries in the New World. They financed the enterprise, sent out a ship, and sent over the Puritans to settle on the coast of this country. That was a speculation venture, and although we have placed haloes over these old Puritans and have honored them in every way, and which they probably deserve, we must not lose sight of the fact that they were brought here by a company of speculators.

Now, we must not assume that speculation is wholly a bad thing for the country when it has had such good results as that. Rather, I would say, let us see what we find wrong in speculation, what we find bad in speculation, and what we find good and beneficial and helpful in speculation.

We must frankly recognize as a fact that as far as the grain market is concerned we are using the speculator; whether wisely or unwisely, the grain trade has harnessed this speculation and put it to work. Most speculation is dissipated in thin air; gets no whither.

A good many people are like a preacher friend of mine who was bitterly opposed to speculation. I have heard him talk against it many, many times. The last time I met him he had bought a quarter section of land in North Dakota, putting up a $500 margin on it, it being a $5,000 piece of land. I asked him if he was going on the land; if he intended to go up there and farm that land. "No," he said, "I have a buyer for that land." He was going to sell this piece of land to this buyer for $6,000, and make $1,000 profit, which he also did do. Now this transaction was conducted by a man who did not believe in speculation, but he went through the usual course of putting up a margin to hold the land, and then sold it at a profit to himself of $1,000.

Now a lot of people are just like that preacher. They don't believe in speculation unless it is their speculation.

Now, the grain trade, or at least a part of it, depends on the people who have a little money, and who want to speculate. We have to recognize that. They put their orders into the pit, and there buy or sell, as the case may be.

Now, my own belief about this matter of the grain market is this, that if you put the speculator out of this market entirely, that leaves you with what we call the consumptive buyer, and of course in the grain trade this consumptive buyer would be mostly the flour miller or the exporter. And would you have enough flour millers and exporters in the market all the time to make a good market?

Now, the best way to judge that is to take the markets that do not have the great number of small speculators in them, the markets in which there are only a few speculators. The hay market is conducted not on the organized exchange, but by a small number of speculators, between, of course, the producer and the consumer. On Tuesday of this week I was in the largest hay-growing county in the United States, and I was in the office of the largest hay dealer of the county, and a farmer came into the office while I was there to sell his hay, and the hay dealer told this farmer not to bring his hay in now, as the market was glutted. "Well," the farmer said, "I have got my taxes coming due, and I have got to have money." And the dealer said to him, "Well, don't bring in your hay now, for the market is glutted. I will telephone you when the market is better."

And so that farmer went home, not being able to sell his hay at any price on that particular day. Of course, on a narrow market, not having these hundreds of small speculators all over the country, such a situation would, from time to time, be inevitable. But the way the grain market is conducted, the farmer will always have a market for wheat. And that is because of this great number of small speculators all over the country. I never knew of anyone going to the market with his wheat and not being able to sell it for some price. So, the speculator comes in there to furnish us with a wheat market.

A friend of mine named Harris Weinstock was the State market Commissioner of California. Now, the fact is that 30 States have taken up marketing activities in one form or another, California ranking first. Harris Weinstock was instrumental in organizing the farmers down there in a cooperative association to sell their products. In his third annual report, and I think it covers the year 1918, he spoke about the market for one of the large products of that State, namely, Lima beans. He said owing to a ruling of the Food Administration concerning the narrow margin of profits, they had put out of the markets the speculative buyers of beans, had put them out of business, which left no buyers in that market at all, except a few consumptive buyers who only bought from hand to mouth, and that had put the price of Lima beans so low that some farmers went out of business entirely. And on top of that, when the price went down the banks would not extend credit.

So this ruling in respect to speculative buyers had had this double effect. This illustrates the fact that the speculator comes in sometimes between the producer and consumer and takes the product when nobody else is ready to do so. And the need for the speculator is therefore illustrated in the case of hay and in the case of beans. And it is also true in the case of tobacco, where we have very few buyers at the present time, and the price has gone way down, almost to bedrock.

I suppose that the picture of the board of trade in the minds of a good many people is represented by a mass of howling, yelling dervishes, gambling, speculating, and betting on the board of trade. Of course, if you have ever visited the board of trade you will appreciate the fact that there are fifty-odd tables at which grain samples are displayed and where there are actual purchases and sales and movements of grain. Last year 400,000,000 bushels actually moved through Chicago; twice as much grain as comes to any other city in the United States. And if you take the 11 markets around Chicago, including Minneapolis, Duluth, Toledo, and so on, the 11 markets in that territory, you will find that they will move about 800,000,000 bushels of grain a year. There is only one thing that moves the cash grain to Chicago away from the other terminals of the interior markets, and that is the price. If the price is not high enough they send it to some place else. So on the board of trade you have a tremendous amount of cash grain and you have a tremendous amount of speculative trading.

The point I want to develop here, if possible, is this: What is the connection between the two? Why is it necessary to handle a cash product, and also have to fall back on the speculator to help do it? Well, it is not necessary. You can get in without future trading in wheat if you want to pay the price. In my opinion it would cost from 5 to 10 cents a bushel more to handle it if we would abolish the future trading. It could easily be done, of course, on that basis.

But here is the way I think it works out, and I want to just as briefly as possible recapitulate what has been said about this hedging function.

You heard the gentleman this morning from the Quaker Oats Co. tell his story, and you heard the same story from the representatives of the Corn Products Co. and other large industrial plants in Chicago and elsewhere who spoke about their business. In my opinion you want a hedging market where the cash grain men can hedge their produce any hour, any day, and get in or out with 10,000 bushels or a million bushels. There is only one place where they can do it now, and that is in the Chicago market. They can not get in the Kansas City market or the St. Louis market with that kind of a trade without affecting the price too much. But you can not have that kind of a market if you do not have the speculators. If you only have the consumptive buyers, the millers and the exporters, there will be certain times when you will have a very narrow market: that is, there will be times when there are only a few buyers in it.

Now, in the Chicago pit there are really two kinds of trading, and two kinds of traders. There are the pit scalpers—there are 40 of these gentlemen, by the way—and they do most of the yelling and shouting, make most of the noise in the pit, but they are not very important, because when night comes they have sold as much as they have bought, or vice versa. They make the instantaneous market.

Then along with these gentlemen I would say there are the speculators, either the men who speculate for themselves or the men who speculate for their customers and put their customers' trade in the pit.

Perhaps I should say there is one more class in the pit, and that is the men who are putting their trade in there as a hedge to avoid speculation, and that would make the story complete. Now, in the

pit there is the pit scalper who makes the most noise and is the least important. And then there is the professional speculator. And then, thirdly, there is the man who hedges and wants to avoid speculation. And you have heard the story, I think, from the millers, the terminal elevator men, and others.

Now, the very fact that when a man makes his trade in there he puts in a contract which he can stand on, or which the other fellow can stand on, in my opinion makes the speculation entirely different from the question of gambling or betting.

Speculation has been defined, and was defined yesterday by President Gates very correctly, as the assumption of existing risks, and I would say it is the assumption of existing inevitable risks. Inevitable, they can not be destroyed. They can be shifted to other shoulders, they can be distributed among many, but they can not be destroyed. That is the situation we have in the pit. And so the cash grain men around those tables will make use of the speculator in this way, and I might give just one example.

I will speak of one man out there, who is dead now, but who was one of the most respected men on the board, and that was Mr. E. W. Bailey. I saw Mr. Bailey on one occasion buy two carloads of oats to go to his mill in Vermont; he then stepped over to the pit to hedge his own grain to keep his books balanced, having bought the cash grain and sold the futures to that extent.

Now, when he sold futures of course his books were in balance and he had no further interest in price changes, being hedged and thereby insured his milling profits. When his cash grain arrived at the mill it would be ground up and sold for consumption, and then his future would be bought in, thus keeping his books in balance. There is no question about that kind of a transaction, it is hedging insurance, and Mr. Bailey had no idea of delivering the grain in the pit, or of speculating in grain. The contract he made in the pit was passed on to somebody else. Whatever one side of the contract may be, the other side may be passed on and on.

Now, just a little bit more and I will conclude my statement here. I noticed that some of the bills introduced are almost exactly like the provisions of the German bill passed in 1896 which prohibited future trading on the Berlin Produce Exchange. Now it seems to me that Germany's experience ought to have some value to us, because they made a very fair test of this whole proposition. I have made a very earnest attempt to find out what the actual facts were with regard to German experience. I have used all the consular reports on the subject, the reports of the American consuls in Germany. You will find this discussed in this little book of mine called "Speculation on the Chicago Board of Trade."

The American consuls found out that when they abolished future trading in Germany it did not stabilize the price of wheat, it did not make a better price for the farmer, but on the contrary it only worked to the benefit of a few of the larger dealers. On the whole the law is a detriment, according to some of our consuls over there, and the law was, in certain particulars, repealed in 1900. After four years they repealed that part of the law which prohibited future trading.

Now I have examined the English writers on this, and also the German writers, as far as I have been able to trace them out, and I am only going to refer to two of them here. The best English authority on Germany's experience is Mr. M. A. Hooker, who has an

article on this subject in the Journal of the Royal Statistical Society, of London. I would like to have this article inserted in the record. for it is of very great interest and importance, and is comparatively brief.

The CHAIRMAN. Without objection it may go in.

(The article entitled "The Suspension of the Berlin Produce Exchange and its Effect upon Corn Prices," by M. A. Hooker, presented by Mr. Boyle, is herewith printed in full, as follows:)

THE SUSPENSION OF THE BERLIN PRODUCE EXCHANGE AND ITS EFFECT UPON CORN PRICES.

[Paper read before the Royal Statistical Society, London, Dec. 17, 1901. Journal of the Royal Statistical Society, vol. 64, p. 574.]

The question of the influence of future dealings upon the price of commodities is one that was brought into considerable prominence during the period of great compression of prices about 1894–95, and numerous writers in England, on the Continent, and in America, have been emphatic in asserting that the system of contracting for future delivery [1] has "ruined agriculture."

More especially, as I understand it, are the operations of speculators—who desire to make a profit out of the difference in price at different dates—supposed to have forced down the price of corn and commodities in general. Into the theory of the subject I do not propose to enter, there is ample literature, and it is not necessary to do more than refer to the publications of C. W. Smith, Prof. Rühland, W. Mancke, and C. Wood Davis, among many who hold that futures are pernicious, and of H. C. Emery and F. Goldenbaum, as well as to the above-mentioned British association report, on the other side.

We have, however, of late years had the advantage of an actual experiment in this connection. So impressed was the Agrarian party in the German Parliament with the arguments of those who urged the abolition of futures, that, during the discussion on the "exchanges bill" in 1896, they induced the Government to accept an amendment prohibiting this class of transaction in grain and mill products upon the exchange. This law came into force on the 1st of January, 1897.

There has been considerable misapprehension in this country and elsewhere as to the effect of this law, or rather, of this particular section, for the law also deals with other matters and applies to stock exchanges. A brief statement of the circumstances is necessary in order to understand the position of affairs.[2] The law does not prohibit contracts for future delivery; the exact words are: "Futures transactions according to exchange procedure in corn and mill products are prohibited."[3] And section 48 of the act defines transactions according to exchange "procedure" to be those which are, inter alia, made in accordance with business conditions laid down by the committee of the exchange. Now the Berlin Exchange has laid down no conditions in this connection, and the transactions are therefore not "according to exchange procedure." Contracts for future delivery are recognized by the commercial code; hence future dealings are not in themselves illegal, and some modifications in the form of contract in use at Berlin were sufficient to allow of the operations being recognized as ordinary commercial (handelscechtlich) and not exchange (börsenmässig) transactions.[4]

So far as regards the contract, therefore, there is nothing in the procedure of the Berlin Produce Exchange to cause its suspension. The conflict turned on quite a different matter. The act provides for exchange regulations (Börsen-Ordnung) to be drawn up for the conduct of each exchange, which must have the approval of the provincial government; and by section 4 of the act the latter can require the inclusion, among the committee of the exchange, of representatives of agriculture. This power was duly exercised, and the Berlin Produce Exchange was required to accept certain agriculturists on their committee. The exchange, however, objected to these "outsiders," and by declining to accept the persons nominated, acted in violation of

[1] I may as well say at once that I shall use the word "futures" as an abbreviation for "contracts for future delivery." By such transactions are understood contracts to deliver goods during a certain month the precise day of the month being at seller's option. There are thus prices of "current month futures," sometimes called "cash," which usually differ slightly from "spot" quotations, but may be practically identical toward the end of the month.

[2] The exchange act is dealt with by Prof. Lexis in the Economic Journal (Vol. VII, p. 368), while Prof. Flux, in a later number (Vol. X, p. 245), has given the history of the controversy in the Berlin Produce Exchange. Readers who wish for further details may be referred to F. Goldenbaum's exhaustive article in Schmoller's Jahrbücher, August, 1900, and February, 1901.

[3] Der börsenmässige Terminhandel in Getreide und Mühlenfabrikaten ist "untersagt" (sec. 50).

[4] For particulars of these, see Prof. Flux's and Goldenbaum's articles loc.

the law, with the result that the produce exchange was absolutely suspended on January 1, 1897. The members at first met for the conduct of business in a building known as the Fairy Palace, from which they were in a few months ejected, the place being held to be an exchange within the meaning of the act, as the result of police proceedings. The merchants afterwards transacted their business "in their own offices," each taking a room in a large building. A settlement between the Government and the dealers was finally reached in March, 1900, the obnoxious clauses as to the nominations of agriculturists being modified. Under the revised regulations the exchange is now entitled to select 5 from among 10 persons nominated by the Landes Oekonomie Kollegium. Certain other minor operations were also introduced, particularly in the form of contract, but these are immaterial here.

Under these circumstances, it will be asked, if contracts for future delivery are not illegal, and have indeed been made throughout the period, how can Berlin be regarded as an illustration of a market with no business in futures? For the following two reasons: First, because there being no exchange, there could by the terms of the act (sec. 29) be no official quotations. Hence from 1897 till 1900 there are no official prices, either of spot or futures, at Berlin. Any influence which futures may be supposed to exert upon spot prices is thus eliminated. Secondly, there being no exchange, and there being consequently considerable uncertainty as to the verdict in the event of any disputed transaction being brought before a court of law, the genuine grain dealers took care to do all their business with those whom they could trust. By this means brokers who merely speculated in differences found their occupations gone, and turned to other branches of business—possibly went on to the stock exchange. To what extent the gambling element may return now that the produce exchange has been reopened is a different question, and one that time alone can answer.

One result of the suspension has certainly been the removal of quite nine-tenths of the purely speculative transactions which took place on the produce exchange.[1] This is almost as important as the nonquotation of futures; since it is sometimes the purely gambling transactions which are alone adduced as the cause of the depression of prices. Berlin therefore offers us, during these three years, the example of a market with no gambling—as it is usually understood—and with no quotations of prices of grain for future delivery.

We can now state the problem to be investigated. What has been the effect on the prices of grain? The problem resolves itself into two main questions: Has the price of grain at Berlin been (1) raised or lowered, (2) more steady during the three years 1897 to 1899 than previously?

Before actually attacking these questions, it may be remarked that opponents of the existing system urged that the effect of the abolition of futures would be to raise the price of grain.[2] Of late, however, this position, at least in Germany, appears to have been abandoned, and partisans of the act are now satisfied with the contention that the price of grain in Germany has been steadier since 1897 than before that date. Economic theory, on the other hand, indicates that an active futures market should tend to impart greater steadiness to the prices of the commodities dealt in.

It will be well also to consider first what effect the closure of the produce exchange might be expected to produce upon prices. For it must not be overlooked, in examining whether a particular cause will produce a certain event, that if a priori considerations would lead us to expect that event, its ascertained existence is no evidence for or against the influence of the particular cause.

In the present instance, if the operations on the Berlin Produce Exchange are not of sufficient importance to materially influence the world's price of grain, the abolition of futures or gambling there would have very little effect on the average price, unless Berlin were absolutely cut off from the rest of the world. And thus, were we to find that the level of price has not been raised there, we should by no means have disproved the contention of the opponents of gambling that the system lowered prices. The Berlin market is certainly an important one, more especially as regards rye, for which grain it probably is (or was), as claimed by the merchants there, the most important in Europe, or out of it. But as regards wheat, the business at Chicago, New York, and Liverpool is on a far larger scale, and the Paris market is also quite probably more imimportant. In addition to this, Germany is a grain-importing country, but at the same time is not as a rule a sufficiently big customer to interfere seriously with the supply

[1] On this point I found, during a visit to Berlin in April last year, that opinion was unanimous. I may take this opportunity of acknowledging the great courtesy with which Prof. Flux and myself were received during this visit, and the extreme willingness with which information was afforded us, alike by friends and opponents, of the futures system. It is not too much to say that we could hardly have arrived at a clear perception of what is, after all, a somewhat tangled position, without the assistance so freely rendered.

[2] E. g., Mr. Hatch's report of Committee on Agriculture on dealing in fictitious farm products (United States House of Representatives, 53d Cong., 1st sess., Rept. No. 969).

of the outside world, and the price should accordingly approximate to that of other countries (due regard being had to customs, duties, etc.). I do not therefore think it possible that the abolition of futures could have had any effect in raising German wheat prices. And even if it could, the rest of the world would have followed its lead unless the increase were very small, so that the effect could not be gauged. This consideration renders vain any expectation of a rise in the price of corn, supposing that it could be brought about by such a cause.

Consequently, we must expect no increase in German grain prices (as compared with other markets), and, finding none, we should not disprove the contention of those who allege that future dealings depress prices; although we should illustrate practically the fallacy of the prognostication that the abolition of futures would raise prices.

As regards steadiness of the price, this seems to be on a different footing; I see no prima facie reason why any increased steadiness, in the absence of other causes affecting our comparison, should not be attributed to the one cause known to have arisen. Greater stability (or instability) would point to good (or evil) effects of the abolition of gambling, while no change in this respect would imply that the existence or nonexistence of the system was indifferent.

As already pointed out, the absence of a rise in price proves little; but we have here some evidence of a decline. I do not see that this can be due to any other cause than to the absence of a well organized market. Sellers, being uncertain as to the real position of the market and as to the prices that should be ruling, were fain to accept something less than they might have obtained if current quotations were freely accessible to all; while buyers intending to resell, uncertain of what profits they were likely to make, had to lower their offers in order to minimize their risk.

The harvests are given, from the German official returns, in the last table. I dare not venture an opinion as to whether there is any approach to truth in the statement which will doubtless be made, that—at 2⅝d. per cental of wheat and 2d. per cental of rye—this legislation has deprived the German farmers of £5,000,000 to £6,000,000 in the three years 1897 to 1899 on account of these two cereals alone. Should there be any truth in either of the counter accusations of the two parties in Berlin, viz, that the former exchange quotations were too low, or that the "central office" prices are too high, this sum would be proportionately increased.

During our visit to Berlin last year we found that the theory there current of the evil effects of future dealings differed materially from that usually advanced in this country. I confess I find it difficult to follow the arguments of those who allege the system to be the cause of the fall in prices. So far as I can understand their contention, it is supposed to depress prices because, the commodities being sold some months ahead, the sellers desire to purchase the goods, in order to deliver, at a lower price than that at which they sold; these "bears" are supposed to be in the majority, and are hence able to beat the "bulls" down to their own price.

Further, the selling of "wind wheat," i. e., stuff which is nonexistent, to an enormous extent, creates a huge fictitious supply, which would have the effect of depressing prices. The theory of the German Agrarians, on the other hand, appears to rest on a less shadowy foundation. It is, if I understand it aright, time to get his supplies from abroad, and thus, by favoring importations and increasing the supply available, to depress the price. This hypothesis offers a much more tangible point of attack, and being apparently the recognized theory in Germany, we find that a great controversy around the question of the magnitude of the imports. It does not appear to me that this hypothesis is any more correct than the others; the country must import what it requires; and, in fact, the following table shows that there was no diminution of imports after 1896:

Excess of Berlin price over Chicago.

[In pence per cental.]

Month.	1892	1893	1894	1895	1896	1897	1898	1899	1900
	d.	d.	d.	d.	d.	d.	d.	d.	d.
January	43½	20⅞	27⅞	30½	32½	30	24⅞	32½	27[illegible]
February	37½	21½	29	31½	31	31½	22⅛	28⅛	27[illegible]
March	36⅛	19⅞	29½	32½	32½	28½	21	27	[illegible]
April	35⅛	21½	27	30½	32½	27⅞	24½	24⅞	27[illegible]
May	34½	27⅛	28½	26½	34½	27½	24	25⅛	[illegible]
June	31⅛	31⅛	26⅞	22⅛	32½	28⅞	35½	25½	[illegible]
July	29⅞	33⅛	30	21½	29⅞	27⅛	40⅞	25⅞	21[illegible]
August	22⅛	33⅞	28⅞	22⅛	31⅛	26⅞	40½	24⅞	[illegible]
September	22	25⅞	27½	24½	33½	23½	39⅛	22⅛	21[illegible]
October	22½	25½	25	26½	31½	28⅛	39½	22½	21[illegible]
November	23½	26⅛	25	30½	30	29½	37⅛	23⅞	[illegible]
December	21⅞	26⅛	27½	31⅛	28⅞	29⅛	35½	24⅛	[illegible]

As regards the general theoretical point that the futures system should tend to mitigate a slump in the autumn, the table shows that, in 1897 and 1899, there was a decided autumn slump in Berlin (relatively to Chicago). The four earlier years, however, show a similar tendency, though not so marked; 1898, like 1892, is of no service in this connection, because prices were falling from a very high level, and as they fell from the maximum much more slowly at Berlin than at Chicago, the excess at the European market is very large for a time. Examining the actual monthly prices (not reproduced here) in the four cereal years 1893–94 to 1896–97, I find that prices were low in the autumn of 1894–95 and 1895–96, but high in the autumn of 1893–94 and 1896–97; these four years therefore show no evidence of an autumn depression. But the experience of 1897 and 1899 seems to point to the steadying effect of an active futures market; although it must be confessed that six years are hardly sufficient to form a very trustworthy guide on such a question.

It may not be out of place to refer here to the statement frequently made that spot prices are ruled by futures. The connection between the two is extremely close, and it seems impossible to say that the one regulated the other. But in view of what is said above, I think there is quite as much ground for saying that spot prices regulate futures—though I do not mean to exclude the influence of the latter upon the former. In this connection it may be noticed that in 1897 there was no rise in the price of wheat in the world's markets until July; in fact the minimum price of the year occurred in that month, the price having fallen gradually, but very slightly since January and evidently depending upon the supply of the current cereal year. And the prices for September-December delivery were quoted no higher; no account was taken of a forthcoming deficiency. Yet two months afterwards the price, spot and future alike, had risen by more than 2s. per cental. It was not until the new wheat had practically come in that the price rose. In 1896 no rise in price took place until September. Again, during May, 1897, there were reports of great damage to crops in France. This could not be expected to materially affect current prices,[1] and I can find no reflection of the storm in the price of futures.

The result of our investigation may now be summed up in a single sentence. The conditions existent at Berlin during the suspension of the produce exchange, while causing the greatest hindrance to the trade, have not induced a rise in the prices of grain, and they have not imparted greater stability to those prices if indeed they have not exercised a deleterious effect in both these directions.

Prof. BOYLE. Now I take Mr. Hooker to be the leading British authority on this subject.

This paper by Mr. Hooker was discussed by Sir Robert Giffen, the leading British authority on economics and finance. I will read a sentence from the discussion of Mr. Hooker's paper by Sir Robert Giffen:

The impression made upon his mind—

That is, upon the mind of Sir Robert Giffen—

was that Mr. Hooker had completely proved his case, and that taking the experience of Berlin, those who agitated for stopping speculation and suppressing dealings in futures on the ground that they would thereby attain a more stable and a higher price, must be held entirely in the wrong.

I would like, Mr. Chairman, to place this discussion of Mr. Hooker's paper in the record as a supplement to Mr. Hooker's paper which has already been placed in the record.

The CHAIRMAN. Without objection it may go in.

(The discussion on Mr. Hooker's paper, presented by Prof. Boyle, is herewith printed in full, as follows:)

DISCUSSION ON MR. HOOKER'S PAPER.

Sir Robert Giffen desired to express the pleasure and satisfaction which he was sure they had all experienced in listening to the reading of the paper. They must recognize the extreme industry and skill with which Mr. Hooker had treated the

[1] Except to the extent that a probable short harvest would involve greater reliance on stocks left over from the previous season and so tempt owners to hold the wheat in hand.

subject and compiled his tables. The impression made upon his mind was that Mr. Hooker had completely proved his case, and that taking the experience of Berlin, those who agitated for stopping speculation and suppressing dealings in futures on the ground that they would thereby attain a more stable and a higher price, must be held entirely in the wrong. A great market on which dealings in futures took place had been stopped for three or four years and it was found that the stoppage of speculation had not tended in any way to raise the price of wheat and that the farmers throughout the world were not one whit better off than they were before.

Of course it was quite true that it was not enough to stop one market if the remaining markets were still open. But that, he believed, was not the view of the people who agitated. They were satisfied that if they could stop speculation in their own markets, they would get better prices for their wheat. The great wonder was that the people who agitated did not take a more general view of the question. Speculation they knew took place on the stock exchanges throughout the world, and not only with regard to wheat, but with regard to other produce and other commodities; and he believed that the conclusion of all the great leaders in these markets, and of economists who had considered the subject, was that on the whole the tendency of such speculation was to equalize prices over a given period, and to prevent an extreme fall on the one side or an extreme rise upon the other. The reason was that there were so many people with capital and with acute brains interested in the subject, that no man could take advantage of another, and if there was a fall it was checked as soon as possible by the wise people who perceived that there would be a reaction, and if there was a rise, it was checked when it came near the top by the action of those who saw that the rise could not last, and who therefore sold in good time the stocks of which they were possessed as dealers in the markets. Those who agitated in the particular case of wheat were bound either to produce illustrations from other departments of the subject in support of their case, or to acknowledge that the arguments which they used were unsound.

This they had failed to do, and their case failed absolutely. Thanks to Mr. Hooker, the members of the society and of the public were now able to deal with the question from experience as well as theory, and Mr. Hooker had done great service by this work.

Prof. BOYLE. Now I have here an article by the German authority on this subject, but I will not read that. I only wish to summarize a few of his statements. I have his report here in the German language, by the way. I suppose a German article written before the war, on an agricultural subject is not tinged with brimstone.

The German writer publishes his findings in the leading economic journal over there, Conrad's Jahrbücher, Jena, 1901, volume 77, pages 793–853. This authority, by the way, is Dr. Georg Wermert, and he refers to the future trading on the Berlin Produce Exchange as the crowning success of the economic evolution of the grain trade in Germany. He referred to the troubles they had in the exchange as growing pains, comparing their troubles with those of children, like colic, etc., and that we should look upon these evils as we do at sickness, as something which could be cured; that these troubles should be cured, instead of attempting to destroy the whole thing. He said that to destroy future trading was very much like putting out all of the fires in Germany, for the reason that a fire had done some harm, had burned down some large building. And he looked on the question of the grain trade as being one of international significance, and that Germany will have to conduct the business as the other countries have in their economic evolution. We might as well, he said, go back to the old flint lock musket and the stone weapons. Although they had won great victory with those in the past, they are not what were needed at the present time. "We might just as well," he said, "recognize the natural course of economic evolution in these questions."

Now just following up this suggestion from Germany here, I trust you men have noted, if you take the Daily Consular Trade Reports, (November 4, 1920, p. 573; November 26, 1920, p. 890) put out by our Bureau of Foreign and Domestic Commerce, that just recently they established in Berlin an exchange to deal with foreign exchange, and also they have established one of these exchanges in Rotterdam to deal in foreign exchange, the idea being to eliminate the risks due to wide fluctuations in price. In other words, the trend of development in the modern countries is to have more of these exchanges, and more tradings in futures, and so they have introduced it in the foreign exchange—which is a most erratic thing just now—in order to stabilize the business, and to either eliminate or reduce or distribute the risks for the merchants who deal in foreign exchange. So that seems to be the economic tendency.

Now I have passed through this matter very hastily, and I suppose that if you have any questions to ask I will be allowed to take a few minutes to try to answer them.

Mr. WARD. Prof. Boyle, I wish you would explain as clearly as you can at whose expense this grain speculation is carried on.

Prof. BOYLE. I suppose if you would make a canvass of the commission houses of the United States as to what happened yesterday you would probably find that there were thousands of people who had put in orders on these various exchanges in buying and selling. They had their beliefs about the market. They are willing to buy and sell. Now we will say that there are 3,000 people, in round numbers, who did this in one day, on the Chicago Board of Trade. And those are the people who were largely paying the expense of that operation. These people are scattered all over the United States, and the commission houses have orders coming to them from foreign countries as well.

Mr. WARD. Then do you think that some of this expense is borne by foreigners, by foreign countries?

Prof. BOYLE. I would not say by foreign countries. I would say that if a man in Liverpool sends his order in he is paying his share of the expense. Some houses before the war had customers in Vienna, for example.

Mr. WARD. How much do you think that affects the price to the consumer?

Prof. BOYLE. I think the effect of the speculation on price, since you have about 50–50, about as many buyers as you do sellers, is to stabilize price. If the price starts up it tends to put a brake on it. If the price starts to go down it tends to put a brake on it. Now the farmer would like to have a brake put on it when the price starts to go down, but he would not like to have a brake put on it when the price starts to go up. But he is better off by having the market stabilized in this way. By having the market stabilized the farmer is a beneficiary.

Mr. WARD. You believe this trading is beneficial to the consumer, do you?

Prof. BOYLE. I think it is beneficial to the consumer by having the effect of tending to stabilize the price. The more the fluctuation is the wider the margins necessary for the handling of the product, and the lower the cost of handling the product is the less toll is taken from the consumer and the producer.

Mr. WARD. Do you think it is beneficial to the producer?

Prof. BOYLE. It is beneficial to the producer and it is beneficial to the consumer because it lessens the cost of handling.

Mr. WARD. Then you are firmly convinced that is a good process, a good system as it is to-day?

Prof. BOYLE. I think the future trading on the organized exchanges is beneficial. It is what I call organized speculation. It is conducted under rules which are open and known to all men, and rather strictly applied. That kind of speculation, organized speculation, on the organized exchanges I claim is beneficial to the producer and to the consumer.

Mr. WARD. Do you think if hides and wool were dealt in in the same way as wheat it would have a tendency to stabilize the markets?

Prof. BOYLE. I certainly think it would.

Mr. WARD. Would you, yourself, as a professor of agricultural economics, advocate the handling of wool and hides in that way?

Prof. BOYLE. Yes, I think I would, and I think we will have exchanges for handling wool and hides and hay as well, in the near future. For instance, they have established an egg exchange in Chicago and in New York for future dealings in eggs; this has all come up in the last year and a half. We certainly are moving in the direction of more future trading instead of less future trading.

Mr. TINCHER. You have written a book. I believe you referred to it, did you not?

Prof. BOYLE. Yes, sir; a book entitled "Speculation and the Chicago Board of Trade."

Mr. TINCHER. What were the circumstances under which you wrote that book?

Prof. BOYLE. What is that question, please?

Mr. TINCHER. Do you use that as a textbook in the schools?

Prof. BOYLE. That is used in part of the course, yes. That constitutes the text in part of the course.

Mr. TINCHER. You prepared that after an investigation, when you were connected with the Government in some way, did you?

Prof. BOYLE. Well, as a matter of fact, this was published in 1920, although I began to teach the marketing of the grain trade, I think, probably in about 1905, and I collected material even before that.

Mr. TINCHER. Do you sell the work?

Prof. BOYLE. No, sir; I do not sell this book. It is sold by the publishers, Macmillan Co. of New York.

Mr. TINCHER. I believe you stated that you were very much interested in the farmer, and that you continued to return to your old Kansas home once every year. They raise a good deal of wheat up in Jefferson County, do they?

Prof. BOYLE. Well, it doesn't rank as a great wheat county. Most farmers will have in a field of wheat, however. It does not compare with Sumner County in that respect.

Mr. TINCHER. Do you know how many of your books the Chicago Board of Trade has bought?

Prof. BOYLE. No, I do not. They dealt directly with the publisher in that matter.

Mr. TINCHER. That is all. The committee is under obligation to you for appearing.

Prof. BOYLE. Well, I am very much obliged to you gentlemen for the hour and one-half's time that you have given me.

Mr. TINCHER. The next name on the list is that of Mr. Canby, of the Chicago Board of Trade.

STATEMENT OF MR. C. H. CANBY, OF THE CHICAGO BOARD OF TRADE.

Mr. CANBY. Mr. Chairman, and gentlemen of the committee, my business experience and my relation with the system of trade for future delivery began in the year 1883. In March, 1883, I became a member of the New York Produce Exchange. For 12 years prior to that time I had been in the wholesale grocery business, in one capacity or another, clerical. And during my experience prior to the membership on the produce exchange I had become very familiar with the general question of fluctuation of prices, and many of the conditions which fundamentally go to control values. Consequently, when I became a member of the New York Produce Exchange in 1883 I was not unfamiliar with commercial problems.

During the period from 1883 to the present time the country has passed through a considerable number of disturbances, such as are generally termed panics. These panics or disturbances commercially all had the same general characteristics as the period which we have passed through in the last few months, that is, general contraction of credit, shrinkage in values, unemployment to a greater or lesser degree, accompanied by a rapidly increasing purchasing power of the dollar. All of those things went together. And as I remember these various disturbances, there were indications that they were the result of conditions which could not have been controlled after they were under way, by any individual action. I make this statement for the reason that in the minds of many there has been the quite natural supposition that perhaps in some way or other a certain portion of the readjustment downward of values which has taken place in the past two or three months might have been prevented in some way, or perhaps, on the other hand, they had the thought in their minds that this readjustment of values downward, this decline in prices, was caused by the acts of individuals for selfish purposes.

I don't think that there is any tangible evidence to support that idea. And on the contrary I believe that there has been a very general attempt in different portions of the business community, as far as they could—and that includes the grain trade as well as everywhere else—to help minimize conditions so that the full detrimental effect would not appear.

I had closer relation during this period with the trade in corn and with the market conditions surrounding corn than I had with wheat, and it became apparent to me from watching conditions in the southwest in the month of August that there was a steadily developing condition of weakness in the fundamentals of the market. That is, the actual trade was becoming in an increasingly bad position. The demand from feeders was letting up. And at this same time we were beginning to feel for the first time in our terminal market the effect of the eighteenth amendment, the prohibition act.

During normal years distillery buyers had purchased probably two and one-half million bushels of corn per month in the markets of Peoria and Chicago and St. Louis. And this year for the first time we felt the real effect of the elimination of that demand, because, as you are aware, it is the corn that flows to the market that, regardless of the intrinsic feeding value, fixes what is termed the price. In other words, it might be easily demonstrable that if you can sell an animal on the basis of a certain figure. That you could feed the corn to that animal, and if you could secure that price you would obtain more money than the market price for corn which, if you wish to sell a carload of corn, you would have to accept.

Consequently there is a difference between the intrinsic value in an article at certain times and the price that can be obtained for that same commodity.

Now, after the month of August the weakness began to spread eastward. The Missouri River markets were weakening rapidly the first part of September, principally Omaha, Kansas City, and I think St. Joe, and the real effect of the declining tendency did not reach Chicago until after the middle of September, or the 20th of September. I think on the 20th of the month prices in Omaha on track were 20 cents a bushel below Chicago—a most abnormal condition. We were that much higher. That was brought about by the fact that there had been, during the previous months, a very considerable amount of September corn bought in addition to any speculative sales against sales for future delivery to Canada, which was a more or less steady buyer of corn, and there were also probably several million bushels of corn sold to manufacturing industries of the character of the Corn Products Co. and several cereal grain and milling companies scattered through the eastern territories that obtain their supplies in our market, and it was the absorption of a very considerable amount of this corn on the contracts for future delivery which had been previously placed, which helped to sustain the market above a parity with markets farther west for some time during the month.

It was then becoming increasingly evident that unless some disaster should intervene within a very short period of time, that a very large crop of corn would be secured during the fall months. The prospect was for a crop in Kansas, Oklahoma, and Missouri larger than anything that they had secured for several years, and very probably 100 per cent larger in much of that territory, than the previous year.

The cattle industry in the Southwest was in a deplorable condition. It was deplorable, that is the only way you can describe it. And I would say right here, because I would like to have the opportunity to make the statement publicly, that one of the conditions which had hurt the beef trade more than any other one condition has been that during the entire war period the retail price for beef was such a wide premium, such a wide margin above the wholesale price that the packers sold their dressed carcasses at, that it caused a very general decline in the desire to buy beef in all the consuming channels. I want to say that, because it is an important thing, and there is the one big thing that must be changed by improved market conditions in the cities, between the wholesaler and the retailer, before the beef industry can ever be on what I consider a satisfactory economic basis.

Mr. WARD. Well, the wholesaler in a large city like Washington, for example, will sell the beef when it arrives right here in the market, will he not? And the discrepancy happens right here in the city, does it not?

Mr. CANBY. The discrepancy happens right here in the city, yes, sir; that is right.

Mr. WARD. It does not happen between Chicago and this city, does it?

Mr. CANBY. No, sir; it is between the wholesale dealer and the retailer. It is after it leaves the wholesale dealer and goes to the retail shop.

Mr. WARD. Then it would be the fault of the retailer, wouldn't it?

Mr. CANBY. Very largely, in my judgment. Their whole method of doing business is so uneconomic, so extravagent, for example, in a large city like Chicago, that it seems almost incredible. We have only one or two small public markets, what you would term public markets, where the sellers of products and the buyers of products can get together with some kind of a minimization of cost. There are retail shops scattered all over the city. There are many thousands of them, each one with a separate outfit, with delivery wagons, with telephones to be paid for, with clerks, with rents to pay, with living expenses to be taken care of, and all that sort of thing. The result is that we have heaped a cumulative series of costs in this distribution.

Mr. WARD. You believe that if there were fewer retailers, and if each retailer did a large business, that they would not have so much expense?

Mr. CANBY. Yes. Or if we had several markets like they have in Baltimore.

Mr. WARD. Generally speaking, do you think that would be beneficial for the country? Would it be beneficial for the country to eliminate a great number of small dealers, eliminate small enterprises, and put in larger enterprises?

Mr. CANBY. There is nothing to be lost by an economy that helps the general public interest, in my opinion. I think everything has to work that way.

Mr. WARD. Well, as a general rule, isn't it a fact that the more business there is in a community, the more small enterprises there are, the more prosperous a community is?

Mr. CANBY. Not necessarily. A community could eat itself up with costs. No, there is nothing that can excuse expensive and uneconomic distributive systems, in my judgment, and in my opinion. I just express this as my judgment. Any one on a fixed and limited income could live to better advantage in the city of Baltimore than he can in any other city in the land of anything like equal size, because of the advantages in marketing, and so forth, in that city.

Mr. WARD. But in this matter of retailing these commodities, I have noticed that a large retailer, as a rule, would charge more for a corresponding product than the very small retailer would. Why should that be?

Mr. CANBY. That is merely an incident.

Mr. WARD. Well, it is generally so in all the large cities. You go into any of the big, fashionable butcher shops and you will pay more for the same thing than you will in the small, dirty butcher shop.

Mr. CANBY. This butcher that you speak of will probably charge you just about what he thinks you will pay him.

Mr. WARD. That is the prevailing custom that I have noticed.

Mr. CANBY. Well, competition will cure that eventually, I think.

Mr WARD. Well, the man who makes his shop attractive draws the people in there, gets the particular trade, and he charges them for it, but he is making a larger percentage of profit than a small man is.

Mr. CANBY. Well, I don't think you can make any rule on that point. I think it might hit a certain number in both classes, so there wouldn't be any definite conclusion, that would be my judgment of it.

Mr. MCLAUGHLIN. of Michigan. Did you find that the consumers in Baltimore bought at lower prices than consumers in other cities did?

Mr. CANBY. Yes, sir, due to this fact, that owing to their public markets, and the fact that the city of Baltimore is located in the center of an agricultural district that raises an enormous amount of vegetable products, the producer comes direct from the farm or producing territory to these markets. They have their stands there. And the consumer and the producer, in many instances, come in immediate contact. The same way with fish. The fishermen come up the Chesapeake Bay, and they have stands there. They sell fish and oysters in these markets. And the men that catch the fish sell the fish to the men who eat it, and by reason of the cheap rentals of these stands which they secure, I believe, from the city at a certain price per annum, the margin of expense is very much reduced, and consequently the food item of the individual consumer is very much less in the city of Baltimore than it is in the city of Chicago for pretty much anything, from a fish to a chicken or a dozen eggs, or anything else. It is that way all along the line. That is quite a well known fact, that Baltimore is a more desirable place to live on that account, for one with a fixed income or a salary.

The question of grades was mentioned this morning by the chairman of the committee, and in this connection I want to say that the grading system for grain, the system established for standardizing grain, originally was initiated in the city of Chicago by a committee of the Chicago Board of Trade in 1858. This system is part of a natural evolution. Previously the trade in grain had all been on the basis of samples. The grain bought had to correspond exactly with a sample of the grain sold.

Now at times it was extremely difficult to do that, except during a short period of time, and the result was that it became necessary that some system should be evolved whereby transactions could be made for delivery covering future dates which would correspond to what we call a descriptive grade, a grade of grain which is descriptive. That descriptive grade corresponds as nearly as is possible to the quality and character of the cereal.

Now that system was initiated by this committee—and I think the year was 1858—of the Chicago Board of Trade—and it has been shown by the experience of time that the grading system is one of the most desirable, and one of the most economic methods that it is possible to put into effect for the handling of cereal crops.

And in this connection I would like to state that in my judgment the principle of buying and selling for future delivery should be extended to any products that are raised in large volume, that are

required at definite dates, at future times, by manufacturers and consumers, and that can be standardized by grade so as to make the delivery of the product sold conform as near as it is humanly possible to do so, with what the seller agreed to deliver and with what the buyer expected he was going to get.

Now I believe that the situation as it exists to-day in Kentucky in connection with tobacco could be entirely remedied if the men who are competent to do so would establish an open and a competitive market in tobacco. I think that they would establish a public interest on the part of the speculative mind of America, who would buy enough of that tobacco at the present ruinously low prices now prevailing, to take the control of that product away from the Tobacco Trust. They have got the control. There are only a few buyers of tobacco. If you do not want to trade with them, you do not trade at all. Now I believe that if they would form an association, if it would be possible to standardize the tobacco so that the contract could be enforced on the basis of the expectation of the buyer and the contract of the seller, I am convinced that the price of tobacco would advance not less than 100 per cent over what it is to-day, and it would be permanently taken out of the control of the trust, and the tobacco farmer would have the benefit of competitive buying, which he has not now, and has not had in some years past.

I believe that the same condition applies to wool. I think wool could be standardized for a few grades that are used mostly by the spinner. I believe this in regard to wool, because there is now, or at least there was up to the time of the beginning of the war, at Roubaix, France, a wool exchange which was formed for the special purpose of providing insurance for the importer of wool and insurance for the spinner of the wool. France does not produce the wool itself in sufficient quantities to bring the home product into the market as a big factor, but the market was organized with a department of speculators definitely recognized, who made their contracts with the spinner and with the importer, and it is definitely provided in the regulations which control that market that at any given period when the contracts become due the spinner or the importer can settle his contract with the speculator at the established average price of that day. It establishes about as complete a case of price insurance as has been developed. The only difference being—and that same element exists in our grain contracts, as has been brought out once or twice in the evidence—that there are varying grades of product, of quality, in connection with all commodities. And it might be possible that the spinner of a certain grade of wool might have to pay a little more premium than he expected to over the standard price of that day, to obtain his product, otherwise the parallel is almost exactly the same as it is in our market places for future delivery.

Now the grading system, as it exists to-day, is, in my judgment, the most important thing in connection with the interest, the direct interest, of the farmer, of the country grain dealer, the terminal market buyer, and the milling buyer, and the maintenance of these grades I believe at the present time is probably about as near exact as could be the case.

The human element which enters into the grading of grain is one that it is difficult to provide against. Two men of equal ability,

two men of equal knowledge, two men of equal desire to do what is exactly right, view the same samples of grain. Now, with the exception of the fact that a certain grade calls for a certain specified weight and a measured bushel, with that one exception there is always the possibility that they may disagree as to where the line between No. 2 ends and No. 3 begins. There is always that possibility.

It was brought out yesterday, I think, that the Board of Trade of the city of Chicago had at various times tried some regulations. which were somewhat in conformity with some of the provisions of the bills that have been introduced. One of these regulations was the prohibition against the members of the exchange making contracts further ahead than 60 days from the date of the contract. This regulation was put into effect because there were, and still are, many people who thought that a 60-day limitation of delivery would perhaps bring about a situation more desirable by making the future price conform more exactly to the market price for the cash grain from day to day.

The regulation was in effect about eight months.

Mr. McLAUGHLIN, of Michigan. When was that?

Mr. CANBY. In 1902 or 1904; it was about 16 or 18 years ago, I think.

The first complaints that we had against this regulation came from the cribbers of corn in Iowa who, as you know, crib their corn in the late fall and early winter. They made the complaint that they did not want to place a hedge, and in those days the corn was cribbed, as it is still, in enormous quantities, and the future markets were sold against corn that was bought from the farmer. They complained that the 60-day limit was too short to give them any protection whatever, that they must have a longer period of time. We struggled through one winter, however, with the regulation in effect, and there were more and more complaints.

The next complaints were the millers in the East and the terminal elevator people in Duluth and Minneapolis, who in the fall of the year hedge practically all the grain that they accept to carry through the winter and merchandise during the spring months, for May delivery. They did not wish to be deprived of the privilege of hedging in the month of May, which was the first month of open-water navigation on the Lakes and the beginning of the spring trading on a large scale.

The eastern miller complained for almost the same reason, but in a reverse way. He bought enough grain in the fall of the year to carry him through the winter months, generally speaking, and then, making flour sales for spring delivery, he would purchase the May delivery. And so between these different elements of complaint we finally eliminated that regulation.

The next regulation that went into effect was not put into effect for any especial trading purpose, but it developed in connection with the fight of the Chicago Board of Trade against the bucket shops in different parts of our western country. That was the complete stopping of quotations. We eliminated quotations.

Mr. McLAUGHLIN, of Michigan. You mean you stopped the publishing of them?

Mr. CANBY. The continuous quotations that are now sent out all through the business day. We stopped those and substituted in their

place what was termed a 15-minute service; that is, a quotation only every 15 minutes. That was done for the purpose of attempting to break up the bucket shop organization, who require a constant and free flow of quotations in order to run their business, in order to deceive the people and lead them to believe that they are really trading in a real market.

That remained in effect for nearly a year and caused quite a good deal of loss to the members of the Board, and it was very unsatisfactory to the grain trade generally.

During the period of the war we put into effect the 200,000-bushel limitation, and that remained in effect for, I think, a period of about a year and a half.

Mr. McLAUGHLIN of Michigan. What was that limitation?

Mr. CANBY. Members were prohibited from buying or selling for future delivery for their individual account any quantity of grain in excess of 200,000 bushels.

Mr. McLAUGHLIN of Michigan. In one transaction?

Mr. CANBY. No; in either one or in multiples of smaller quantities—their total purchases or their total sale. It might be in one day or it might be scattered over a number of days or weeks, but their interest must not be over 200,000 bushels.

Mr. McLAUGHLIN of Michigan. Would that rule forbid the commission merchant dealing in a quantity in excess of 200,000 bushels?

Mr. CANBY. I was just about to say that this did not, of course, prohibit anyone from hedging over 200,000 bushels of cash grain; it did not prevent anyone from doing that. But on the other side, it did not prevent anyone from buying over 200,000 bushels against a sale of flour or wheat.

This limitation had a distinctly bad market effect, as far as I was able to observe. The bad market effect was this, that there are times in any market that is free and open and supposed to be able to take care of the business that comes along—there are times of a preponderance of either buying or selling, and if the interest that might be disposed to buy had already purchased their quota in a speculative way they could not buy any more. Consequently, the market was contracted for the broad purpose of the hedging buyer or seller. The elevator seller found that the market that he had to hedge his grain on was restricted and that when a certain volume of purchases had been made no more could be made. Consequently the market became more or less contracted. It became less responsive to the actual conditions which existed and less of an effective piece of machinery for the handling of contracts.

Consequently, that passed away, and at the present time there are none of these limitations in effect that I have mentioned.

During the war for a period of three days the Dominion council of Canada stopped all trading in the Winnipeg market. They closed the exchange for a period of three days. Just what their motive was I do not know, but I am informed by the men that have line elevators on the Canadian Northern and on the Canadian Pacific that immediately the Winnipeg market closed the buying all along the lines of those two roads stopped. It showed the dependence of the elevator or dealer back at the country point, who must take care of the grain as it comes from the farm wagons—it showed his dependence on the terminal market and the facilities which are afforded by the Winnipeg

market for the purpose of hedging their grain. All buying on the Canadian Northern and all buying on the Canadian Pacific stopped during this period when they closed the Winnipeg exchange, and there was what you might term, in moderate degree, a period of chaos. Everything stopped. When the market opened again the buying opened up, and everything went along about as before.

The Winnipeg market at this time was a large and growing market in accord with the development of Canadian territory.

Mr. McLAUGHLIN of Michigan. Did you say you did not know why the council did that?

Mr. CANBY. No, sir. It was something in connection with the food administration changes. They changed from one policy to another, and for a period of three days everything stopped while they were making this change. I do not know what the purpose was; I have no means of knowing.

Now, one of the points which we must bear in mind in considering the entire question—because we are unconsciously but very naturally affected by the conditions in the recent past—is that for the past three or four years everything practically in the world has been unnatural, has been to a certain extent artificial, and markets and marketing systems have not reflected, as they do in normal times, the progress of events as applied to prices.

In 1913 and 1914, before the war, the entire fluctuation of grain for a period of nearly 15 months was only 16 cents a bushel. Of course there were weeks when the fluctuation was not 2 cents. There were days when the fluctuation was not three-quarters of a cent or half a cent. The market had reached what might be termed the equilibrium, and that is the tendency of all markets.

In the readjustment that is now going on we have finally arrived at a point where prices and conditions are stabilizing themselves, with the market influences reflected in the price that represents those market conditions. For example, last week the range from Monday to Saturday in May corn was only about 1¾ cents, and during that period not only were there large quantities received and sold on track which were hedged on the future market, but in addition to that there was a constantly accumulating quantity of hedges placed against corn which will be held in the cribs during the winter.

Now, I think it is fair to state that there is no such thing as complete perfection in the world. There is nothing perfect. In my business experience, and my life covers a span of nearly 50 years, I have never yet come in contact with anything in a commercial way that was perfect, and I can truthfully say I never expect to. But I do believe that as far as it is humanly possible to conduct a system, to construct marketing methods, the system of buying and selling for future delivery, with the participation of the speculator, is as economically desirable as anything that in an imperfect world we can hope to bring about.

That system has several advantages which are of unparalleled value in trade. One of them is that it permits the participation, from the country station all along the line of men who have not large means, and it permits them to compete on terms of equality with the man that has a million dollars capital. I think that is a priceless advantage of this system.

Furthermore, it conserves capital, and when money rates are high and money is scarce, capital is something the conservation of which is of the greatest importance. At the present time I have no doubt that the difference between the collateral value of grain, which is established—of course, you understand that grain, intrinsically, has a high collateral value. I want to establish that fact, that grain has a high collateral value as grain, but that collateral value is increased by any degree of safety by which you can surround the ownership. If you could surround the ownership of that grain with perfect safety to the man who is on the note which accompanies the grain as collateral, you would have an absolutely perfect system. But that does not exist, and probably will not. It has some drawbacks, which I will allude to.

Now, the marketing system is a highly competitive one. If you will permit me, I just want to emphasize that, because in the first part of my business career about all that anyone ever talked about was the Sherman Act. For a number of years all the men that were older than I was and had had larger experience in business talked about the Sherman Act. It was the topic of conversation everywhere.

I think that law was enacted in the late eighties. The Sherman Act prohibits combinations in restraint of trade. Its cardinal principle is to establish free competition, and it does that by prohibiting any combination in restraint of trade. And if we will apply that general principle to the system of trading for future delivery we will see that it does encourage and does establish, as far as it is possible to do so, freedom of competition and independence of individual action.

The competitive system and the open-market system also help to cause wide publicity of prices from day to day. It seems to me that there is not anything of greater importance to all concerned all along the line in this entire chain than that they should know that these prices represent the untrammeled opinion of a free-market place. Consequently, in summing it up, I would say that a system of this character is essential to the narrowing of the spread between the producer and the manufacturer or consumer, and this is generally supposed to be the most desirable end that can be attained in the handling of and merchandizing of a commodity. It has been frequently stated in regard to many commodities that the basic price is "seven-eighths and nothing" and the price to the consumer is a dollar. In the grain trade we believe that by a system which facilitates the handling of grain we are performing a great public service in elimination of cost.

Mr. DICKINSON. Mr. Canby, who carries the expense of the spread that you have just mentioned?

Mr. CANBY. The extent between the consumer and the producer, whatever that is?

Mr. DICKINSON. Yes, sir.

Mr. CANBY. The spread between the producer and the consumer is separated; that is, the parts of the cost are separated. For instance, the producer might pay the freight rate to a certain point, and the consumer pay it from that point on. But I do not exactly catch your question.

Mr. DICKINSON. Who carries the spread between the cash price and the future price in any commodity?

Mr. CANBY. The future month absorbs the difference between the two.

Mr. DICKINSON. Yes; but somebody must pay it. Who pays it?

Mr. CANBY. It is not essential that anyone pay it.

Mr. DICKINSON. Well, suppose it is a decline or a loss; who pays it?

Mr. CANBY. I do not know. There might not be any loss even in the event of a decline.

Mr. DICKINSON. What is the benefit of having speculators there then?

Mr. CANBY. Well, there is, of course, a distribution of losses that do occur. I have just said that there might not be any in an individual case, but the speculators do lose if a market declines and they are on the long side. I presume that they lose just the same as they would with any commodity.

Mr. DICKINSON. What if the volume of commodities became so large that the speculative interest did not carry that loss in the spread, if there was a loss? Would not your system break down?

Mr. CANBY. No, I think not; I do not see how it could break down in any event.

Mr. DICKINSON. Don't you think the speculator is an essential element in this system?

Mr. CANBY. Yes, sir.

Mr. DICKINSON. You think that if he were taken out of the business the system would fail?

Mr. CANBY. I think that the free and open market, the constant market, would disappear.

Mr. DICKINSON. Every commission man that has testified here has testified that he carries his investment in futures for protection and for insurance. Now, somebody must pay that insurance, must they not?

Mr. CANBY. Certainly.

Mr. DICKINSON. Who pays it?

Mr. CANBY. Why, in the event of a decline I assume that is spread over all the different parties in interest that intervene between the original price and the ultimate price. In other words, if you should sell to me 100,000 bushels of grain for May delivery I might transfer—if the market should decline I might transfer that to 5, 6, 8, or 10 others. They on their part within a few days might transfer the same interest again to a half dozen others, and consequently there might be 200 or 300 participants in that loss, making the percentage of loss to each one comparatively trifling. That is, I think, the best feature of the insurance scheme, that the loss is not concentrated on anyone but is distributed over a very large number. There might be 200 in that one transaction.

Mr. DICKINSON. Well, most of these transfers in futures, that are simply quick changes, as you would call them, are made by the speculator, are they?

Mr. CANBY. I do not understand that question exactly.

Mr. DICKINSON. You spoke of the transfer of this sale——

Mr. CANBY. No; a sale.

Mr. MCLAUGHLIN of Michigan. That is a dividing up rather than a transfer, is it not?

Mr. CANBY. You do not transfer; you make a new contract. For instance, if you sell it to me and I sell it to him, that in effect

might be a transfer, but it is not. I have to take care of your contract and he has to take care of his. It is the making of a new contract.

Mr. DICKINSON. Well, if there is a declining market and the man is beginning to lose on his contract, he makes a sale of his future contracts to that date and pays his losses? Is that the way you make those settlements?

Mr. CANBY. Not necessarily; no, sir. That transaction might not be settled until the month of May, when the grain would come from some one, perhaps, along the various lines and be delivered from one to another. No, sir.

Mr. DICKINSON. Then you do not think the speculator carries the spread?

Mr. CANBY. Oh, yes; I guess I did not comprehend what you were talking about—in this way. There is no such thing as a decline in values without someone losing money. That is impossible—or a decline in price. Someone loses something when prices and values decline.

Mr. DICKINSON. In the short-period hedge, your experience with which you have detailed, is it not true that that worked to the disadvantage of the man that wanted to accumulate grain in the fall and carry it until the May delivery, as well as to the man that cribbed corn in Iowa?

Mr. CANBY. Yes.

Mr. DICKINSON. That is all, Mr. Chairman.

STATEMENT OF MR. JOSEPH P. GRIFFIN, PRESIDENT BOARD OF TRADE, CHICAGO, ILL.

Mr. GRIFFIN. Mr. Chairman and gentlemen of the committee, on behalf of the Chicago Board of Trade I wish to express our great appreciation of the privilege of appearing here and the opportunity of explaining our marketing machinery. The position of the grain exchanges is a rather unhappy and unenviable one, as they constantly find themselves the center of two opposing and seemingly irreconcilable forces. I refer to the producer and the consumer.

Practically every investigation of the exchanges and criticism of their methods resolves itself in the final analysis around the dissatisfaction of one element or another in the matter of values. These exchanges, as Mr. Gates explained in his masterful dissertation, are mere market places. They are the modern, up-to-date, improved existing evidence of what formerly was a town or provincial market. Prices are not fixed by the board of trade, but rather they are established by a natural economic law. I refer to the law of supply and demand. Neither our exchange nor any other and, if I may say it, I say most respectfully, in my judgment no legislative body can by legislative enactment control the price of commodities such as wheat, corn, oats, and rye, which are, all but wheat, of unlimited production and of scattered consumption.

A number of bills now pending before Congress have for their object the suppression of future trading and speculation in grain. Of such a character is the Capper bill in the Senate, and the Tincher, Caraway, Hoch, and Dickinson bills in the House. Some of these bills practically prohibit all future trading except for actual delivery;

others attempt to prohibit speculative trading, and at the same time, to preserve future trading for the purpose of hedging.

It is here proposed to show that:

First. Speculation in grain can not be abolished so long as the prices of grain is subject to fluctuation.

Second. Hedging is highly beneficial, not only to grain dealers, but also to all grain producers and grain consumers.

Third. There can be no hedging by grain dealers unless persons other than grain dealers are permitted to speculate. To prohibit such speculation by persons other than grain dealers is merely to compel grain dealers to become speculators.

Fourth. Speculation in grain by persons other than grain dealers is useful and beneficial and should not be abolished.

Fifth. The evils incident to speculation are largely exaggerated. While the system may not be perfect, its advantages so far outweigh its deficiencies, that its attempted prohibition would result in little economic benefit and very considerable economic harm.

Sixth. Legislative attempts to suppress speculation have uniformly proven unsuccessful.

Speculation in grain can not be abolished so long as the price of grain is subject to fluctuation.

All commodity prices inevitably fluctuate unless monopolized. This is true even of Government bonds, which are the most certain and conservative of investments. Certain issues of Liberty bonds subsequently depreciated almost 20 per cent. Doubtless, before their maturity, these bonds will return to par. If the price of Government bonds fluctuates to this extent, stability of grain prices is hardly to be expected.

Grain prices are affected by weather conditions, drought, rain, heat, cold, good crops, bad crops, crop reports, foreign supply, foreign demand, transportation, car shortage, ship shortage, embargoes, general price conditions, general financial conditions, panics, food boycotts, etc. The result is the incontestable fact that grain prices always have fluctuated and probably always will fluctuate. There can be no absolute stability of grain prices unless there is absolute stability in the conditions which make prices. Grain prices fluctuate for the simple reason that controlling conditions fluctuate.

Mr. EVANS. May I ask you a question right there? If an aeroplane should be flying here and I would bet $5 or $500 or any amount that it would break before it landed safely and you took the bet, would we be gambling?

Mr. GRIFFIN. Yes, sir.

Mr. EVANS. Suppose that I meet you in the street in Chicago to-morrow, and I bet $50,000 that the market on wheat will go up 1 cent before a given time and you bet it will not. Will I be gambling?

Mr. GRIFFIN. I think so.

Mr. EVANS. I go then to my broker, and I instruct my broker to bet $50,000 on the board of trade, and if you are the one——

Mr. GRIFFIN. What do you mean by "bet" on the board of trade? You make a contract.

Mr. EVANS. I make a contract; it is the same thing in the end.

Mr. GRIFFIN. Not in my mind.

Mr. EVANS. Wait until I get the distinction between gambling and trading. We make that contract on the board of trade. Is that gambling or not?

Mr. GRIFFIN. In the first two instances——

Mr. EVANS. Well, you have answered the first two.

Mr. GRIFFIN. No; I have not answered the first two. In the first two instances you and I gamble on self-created risks. When you make a contract on the board of trade you serve an economic function and you have made a contract based on an existing risk, a risk that is incidental to either the ownership of property or a contract of sale.

Mr. EVANS. This is true, is it not, that if I have got the market cornered I can not get my wheat?

Mr. GRIFFIN. That is true of any commodity.

Mr. EVANS. Well, you have made on your board of trade a rule which prohibits my requiring delivery under the contract?

Mr. GRIFFIN. We have passed a rule which conforms to the statutes of the State of Illinois, which makes it a felony in our State to control foodstuffs.

Mr. EVANS. But I live in Nebraska.

Mr. GRIFFIN. But Chicago is in Illinois. I am not familiar with the Nebraska law.

Mr. EVANS. I could make my corner just as well living in Nebraska as if I lived in Chicago?

Mr. GRIFFIN. Yes, but your contract would be an Illinois contract and susceptible to the Illinois law.

Mr. EVANS. Now, wait. If I am in Nebraska and commit an offense you can not punish me under an Illinois law?

Mr. GRIFFIN. But if you make a transaction on our board of trade under the Illinois law you have made an Illinois contract, and you will be amenable to the Illinois statutes.

Mr. EVANS. I would be as to the construction of the contract, but not as to the Illinois criminal law.

Mr. GRIFFIN. We are assuming that you are running a corner on the Chicago Board of Trade. You would be violating the rules of the board of trade, if you are a member.

Mr. EVANS. But I am not a member; I suggested that I did it through a broker.

Mr. GRIFFIN. Then you have violated the statutes of the State of Illinois.

Mr. EVANS. Conceded.

Mr. GRIFFIN. And you are in the position of having a series of contracts which are nonenforceable, not only on the board of trade but under our State statutes, because you are in the position of being a potential criminal, or an actual criminal if the offense could be perfected.

Mr. EVANS. The fact remains that I could not enforce my contracts and get the wheat?

Mr. GRIFFIN. I dare say you can make a thousand varieties of contracts on the sales you have turned over, which were illegal and which you can not effectuate or force delivery on.

Mr. EVANS. I would like to stick to the wheat proposition if I can. You say that the contract made on the board of trade is an enforceable contract?

Mr. GRIFFIN. So long as it does not interfere with the rules of the board or the law of the land.

Mr. EVANS. Very well. I buy 500,000 bushels. That is not gambling, is it?

Mr. GRIFFIN. Not if you buy it on the board of trade.

Mr. EVANS. Now, then, I keep on making those contracts from men who have offered them until I have practically all the visible supply. It comes time to settle, and they can not deliver. Then your board of trade will authorize a settlement, not by letting me have the wheat but giving me what you know is the actual value of the wheat? Is not that true?

Mr. GRIFFIN. Not precisely.

Mr. EVANS. In substance it is the rule, is it?

Mr. GRIFFIN. No, it is not in substance. The rule which you have in mind not only prescribes that you shall be given a fair commercial value in Chicago made through markets for consumption and manufacturing, but in addition thereto you would receive as liquidated damages from 5 to 10 per cent from your seller. Mind you, you can not pass any law, I believe, that will prevent a man from committing a default on a contract, but you can assess that man's damages, and that rule simply follows the common law.

Mr. EVANS. You, however, stated here that your contract is enforceable——

Mr. GRIFFIN (interposing). It is enforceable; does not that enforce the contract?

Mr. EVANS. By the delivery of the wheat.

Mr. GRIFFIN. That is the practical and general working out. These witnesses who have testified have testified, and I am willing to testify, that our contract is a legally enforceable contract. There are times and conditions—for instance, I have seen the time when the States of Iowa and Illinois had millions of corn sold against actual grain. The roads would break up on account of the weather, transportation would not be available, and it was physically impossible to transport that grain to satisfy those contracts. Those men were not speculating; they were serving in a purely commercial transaction. They had two alternatives: They could either go on the market where they had made their sale and buy their grain back in that same market, or they could exercise their legal right of default, and in the event of a default they would have to follow the path of every contract in which there is a default. When one party suffers damages he can assess those damages against the party in default.

I wish to say, however, that defaults are virtually unknown; they have happened occasionally. I think that is the most convincing evidence, that a default is the rarest exception on the Chicago Board of Trade or any other exchange.

Have I answered you?

Mr. EVANS. No; you have not. You have made your explanation, and I do not think I can get a better one, so I am not going to use any more time.

Mr. GRIFFIN. Thank you.

In a broad sense, the owner of any commodity which is subject to price fluctuations is speculating in that commodity. In popular speech, investments are said to be speculative or nonspeculative, depending upon the comparative likelihood of price fluctuations. Railroad stocks are more likely to fluctuate in price than railroad bonds, hence, comparatively speaking, the one is speculative, the

other nonspeculative. But, strictly speaking, even the bonds are speculative, for they are frequently subject to wide price fluctuations. What is true of bonds is much more true of commodities such as grain. The essentially speculative character of grain begins with the planting of the seed. From planting until harvest the farmer speculates upon the uncertainties of wind and weather. After harvest, until his grain is sold, he speculates upon price. But speculation does not end here. The purchaser during his period of ownership is constantly speculating on price, and the same is true of each successive owner, until the grain passes to its ultimate consumer. Thus we see that speculation is incident to grain ownership; that all grain owners, in a large sense, are speculators.

Sometimes the word "speculator" is used in a sinister sense—as the equivalent of "gambler." This is incorrect. The distinction between gambling and speculation is recognized by all economists, and equally by all thoughtful persons. The risks of a speculator are those which are inevitably incident to the ownership of property. The gains and losses of a speculator are those which are incident to actual changes of value. On the other hand, the risks of a gambler are incident to nothing—such risks are purely self-created. The gains and losses of a gambler do not depend on changes of value—the gains of one gambler depend upon nothing except the losses of another. Hence the gambler performs no economic function, and since gambling contains recognized elements of evil, it is forbidden. But the purchaser and holder of grain performs a valuable economic function, for without this intermediate ownership each ultimate consumer would be obliged to purchase, at harvest time, his entire annual supply of grain. We have seen that, in a broad sense, every grain owner is a speculator. In this sense, undoubtedly, speculation in grain is beneficial to the public at large.

The word "speculator" is also used, at times, in a special sense, as referring neither to actual grain owners upon the one hand, nor to gamblers upon the other, but restrictively to those who buy and sell grain for future delivery on the Chicago Board of Trade. Such a contract obligates the seller to deliver and the buyer to accept a specified quantity of grain at a specified price during a specified future month. It is believed by some that this particular type of speculation is evil, and that such speculators are more nearly akin to gamblers than to grain owners. If, like the gambler, the risks assumed by these speculators are self-created, and the gains of one depend upon nothing save the losses of another, this opinion is justified. If, however, these speculators assume those risks which are inevitably incident to the ownership of property, and if at the same time, the burden of those risks is removed from the actual owners of the grain, it must be manifest that such speculators are not engaged in the banality of gambling, but are performing an important and valuable function incident to grain ownership. That the latter function is performed by such speculators will be pointed out in connection with the discussion of hedging.

NOTE.—In the following authorities, speculation is defined and it is shown that speculation is a necessary incident to the ownership of property where the price of such property is subject to fluctuation. These authorities also distinguish between speculation and gambling.

Boyle on Speculation and the Chicago Board of Trade, pages 116, 117, 120.

Hadley on Speculation, see article in The Functions of Legitimate Exchanges, page 217.
Report of the Industrial Commission, volume 6, page 5.
Emery on Speculations in the United States, pages 98–100, 101–105.

Hedging is highly beneficial, not only to grain dealers, but also to all grain producers and grain consumers.

It has been pointed out that all grain owners are speculators. Such owners profit by an advancing market, and lose by a declining market. This does not necessarily mean that a rising market inevitably brings gain, and that a declining market inevitably brings loss. In certain branches of the grain business (as in the case of farmers and elevator owners) the purchase or acquisition of grain ordinarily precedes its sale. But in other branches of the business, sale frequently precedes either purchase or acquisition. Thus, exporters may not wish to incur the risk of purchasing grain at home without a definite contract for its sale abroad. The sale abroad must necessarily be for future delivery, as foreign dealers must have advance assurance of a definite supply, and the time consumed in transportation may be considerable. Again, the manufacturers of grain products may contract to sell the output of their mills many months in advance of actual manufacture. These illustrations sufficiently disclose that if an industry is practically conducted, the sale of grain or its products must frequently precede its acquisition. In all such cases, a declining market brings gain, while a rising market brings loss.

As the grain business is practically conducted there is necessarily a considerable lapse in time between grain production and grain consumption. This is not merely because of the delays incident to transportation, but because grain must be harvested during definite months, whereas consumption is distributed over the entire year. Of course, all grain is owned by some one from the time of its production to its consumption. Necessarily this ownership, whether in one person or many, must continue in most cases over the period of many months. During this time the owners would be subject to the speculative risks incident to ownership, unless some means were devised whereby these speculative risks might be shifted to others willing to assume them. The system of future trading in vogue on the Chicago Board of Trade is the means which has been devised to shift the speculative risks incident to the ownership of grain. This system of trading equally shifts the speculative risk incident to the making of contracts to deliver grain or grain products which are not owned at the time of the execution of such contracts.

The precise manner in which these speculative risks are shifted is very simple. In October a country elevator purchases grain from a farmer, with the expectation of shipping and selling the grain during some later month. At or about the time of the purchase the elevator owner sells an equal amount of the same grain for future delivery on the Chicago Board of Trade. This sale is made at a price sufficient to cover the cost of the grain, carrying and freight charges, and a fair profit. By this process the elevator owner becomes immune from losses due to a declining market. If the market declines, the grain in his elevator becomes less valuable, but this loss is offset by the gain which he realizes on his Chicago contract. Under such circumstances he is said to be "hedged" and the process by which his speculative risk was shifted is known as "hedging."

This identical process may be used to shift the speculative risk of the exporter who has contracted to sell grain abroad in advance of his actual purchase of the grain. The exporter merely buys an equal amount of the same grain for future delivery on the Chicago market, at a price which will later enable him to deliver the wheat abroad at a fair profit. He thereupon becomes hedged, and is immune from losses due to a rising market.

In the two illustrated cases the elevator owner resorted to the process of hedging to avoid the speculative risk incident to the ownership of grain and the exporter resorted to the same process to avoid the speculative risk incident to his contract of sale. In both cases, however, the risks were not entirely eliminated, but merely shifted from one person to another. The risk itself is no more capable of being eliminated than matter is capable of being eliminated. The ownership of grain and the speculative risk of a declining market are one and inseparable. Similarly a contract to deliver grain in the future and the speculative risk of a rising market are one and inseparable.

How, then, are the elevator owner and the exporter to avoid the risks incident to their respective relationships? Only by finding others who are willing to assume the risks sought to be avoided by themselves. But who can be found willing to assume such risks? Obviously some one who is willing to risk a speculative loss in the hope of making a speculative profit. In other words, the speculative risks of the elevator owner and the exporter can only be shifted to those who are willing to speculate upon the price of grain. Unless the risk is shifted the elevator owner and the exporter are themselves speculators. By the process of hedging the elevator owner and the exporter become conservative business men, and the speculative risk is assumed by those whose business it is to assume such risks. In this way the speculator, in effect, insures the elevator owner and the exporter against losses due to declining or advancing prices. The function of the speculator is identical with that of the many insurance companies which insure against losses due to fire, death, accident, bad debts, tornadoes, sickness, theft, liability, riots, etc.

In effect, all of these insurance companies are speculators in their respective fields. Yet no one doubts that these companies perform a valuable economic function. As the result of insurance, losses cease to be individual losses and become, in a sense, community losses. Instead of one person suffering a large loss, many persons suffer a small loss. Furthermore, insurance, by adding to the safety of business operations, permits business to be conducted upon a smaller margin of profit, thus benefiting the community at large. For these and other reasons the economic value of insurance is undisputed. Speculation in the grain business performs the identical function which is performed by insurance in other industries. As marine insurance (for example) removes from the shipowner the perils of the sea, so speculation removes from the grain owner the perils of fluctuating prices.

As the business is now conducted, grain dealers may be divided into two classes—speculative and nonspeculative. The speculative dealers are the speculators, technically so-called. The nonspeculative dealers consist generally of dealers in cash grain, millers, warehousemen, exporters, general distributors, consumers, and govern-

ments. These dealers, classed as nonspeculative, are enabled to avoid speculation by transferring to the speculators the unavoidable risks incident to a fluctuating market. If speculation were abolished, the transfer of these risks would be no longer possible and all grain dealers who now avoid speculation by hedging would necessarily become speculators.

Hedging operations also play an important rôle in connection with banking. As a practical matter, elevator owners and other grain dealers owning grain in store, usually borrow from the banks the greater proportion of the purchase price of such grain. From a banking standpoint the amount of credit which will be extended to such owner depends entirely upon the question whether the grain is hedged. No conservative bank will make an unsecured loan to a small grain dealer who does not hedge his holdings. The reason is that any considerable decline in prices might result in the bankruptcy of such an owner. Bankers make loans to business men, but not to speculators. Inasmuch as the present margin of profit on the purchase and sale of grain approximates only 1 per cent of the purchase price, it is obvious that only a slight market decline is required to turn this profit into a loss. The result is that bankers, having in mind the welfare of their customers, as well as their own security, practically require grain dealers to hedge their holdings.

The benefit of hedging to the grain dealer has been sufficiently shown. How does hedging benefit the public? By narrowing the dealer's margin of profit, thus increasing the price paid to the farmer and reducing the price to the consumer. That such is the actual effect can not be doubted. Except for the elimination of risk through hedging, dealers would necessarily increase their margin of profit to offset the additional risk assumed. Thus the dealer's margin of profit on hay or seed, which can not be hedged, is approximately three to five times as great as on wheat or corn. Again the margin of profit on grain in the United States, where hedging is constantly practiced, is very substantially lower than in foreign countries, where hedging is unknown.

Even more conclusive is the fact that the margin of profit on grain in the United States is lower than upon any other stable commodity. These facts demonstrate the practical and economic value of hedging to both producer and consumer.

NOTE.—The following authorities describe hedging, and point out the economical advantages of hedging to the producer and consumer of grain, as well as to those engaged in the grain business:

Weld on the Marketing of Farm Products, 337–347.
Boyle on Speculation and the Chicago Board of Trade, 34–37, 166–179.
Opinion of Mr. Justice Holmes in Board of Trade *v.* Christie, 198 U. S. 249.
Final Report of U. S. Industrial Commission, vol. 19, p. 186.
Emery on Speculation, 108.

There can be no hedging by grain dealers unless persons other than grain dealers are permitted to speculate. To prohibit such speculation by persons other than grain dealers is merely to compel grain dealers to become speculators.

There are persons who profess to believe that there could be a satisfactory hedging market, even if all speculation was eliminated. The fallacy of this position is obvious. We have seen that the owner of unhedged grain speculates upon the price of his grain during the period of his ownership. This speculative risk is one of the inevitable

incidents of ownership. So long as the grain itself remains in existence, its value is certain to increase or decrease with the rise or fall of the market. Any such decrease in value necessarily spells loss to the owner. How, then, is the owner to escape the risk of a falling market, unless some one, other than the owner, is permitted to assume the risk which the owner seeks to avoid? True, the owner may shorten the period of his risk by selling the grain. It is equally true that he may altogether avoid the risk by not buying it. But the sale of the grain does not end the risk; it merely passes it on to the new owner. The grain must be owned by some one from production to consumption. And inevitably incident to this ownership is the speculative risk of a falling market. The purpose and function of hedging is to shift this speculative risk from grain owners to others. But since the risk to be shifted is speculative, and since anyone who assumes such a risk is necessarily a speculator, it should be apparant to anyone that hedging without speculation is simply impossible.

But it is argued that in any considerable grain market, such as the Chicago Board of Trade, there are hedging buyers and hedging sellers who may trade with each other. The answer is that there would never, at any one time, be a proper balance between hedging buyers and sellers. During a particular hour or day, hedging sellers might have for sale 2,000,000 bushels of wheat, and hedging buyers might wish to buy only 1,000,000 bushels of wheat. Inevitably sellers for 1,000,000 bushels would find no purchasers. The effect would be to create such competition among the sellers that the price would be inordinately depressed. The result is a double evil—inability to hedge supplemented by an unstable market. During certain seasons, these evils would be so pronounced as to invite disaster. In the fall, the farmers sell their grain, and the elevator owners purchase such grain to the extent of many millions of bushels. The elevators hedge against these purchasers by selling futures. But at this particular time of year, there would never be enough hedging purchasers to absorb even a substantial part of the grain offered for sale by the elevators. The result would be, first, inability of the elevators to hedge, and second, depressed prices due to an excess of sellers over buyers. These considerations amply demonstrate that without speculation, hedging becomes a practical impossibility.

NOTE.—The following authorities point out that there can be no sufficient market for hedging without speculation, and that unless speculation is permitted by those who are not engaged in the grain business, the practical effect will be to compel grain dealers to become speculators: Weld on the Marketing of Farm Products, 347–349; Boyle on Speculation and the Chicago Board of Trade, 176, 177, 178.

Speculation in grain by persons other than grain dealers, is useful and beneficial and should not be abolished.

Market stability.—Some persons believe, or profess to believe, that speculation causes wide price fluctuations. The reverse is true. Speculation minimizes such fluctuations. Its effect is to steady and stabilize the market. Normally, when the supply is large, prices are low. In the grain business, it is invariably true that immediately after harvest, the supply is large and the demand comparatively small. At this particular time, speculators purchase grain and carry it until the day of need. These purchases, coming at a time when the

supply is large and the demand is small, tend to maintain prices. Later, but before another harvest, the supply is small and the demand comparatively great. At this time the speculators sell, and this selling tends to prevent undue inflation of prices. Thus speculation creates a demand when grain is plentiful and prices are low, and offers a supply when grain is scarce and prices are high. The effect undoubtedly is to stabilize the market.

Generally speaking, there are inevitably wider fluctuations in a small market than in a large market. This may be illustrated by comparing the Chicago grain market with the Kansas City grain market. In the Chicago market, the volume of business is so great that an offer in the pit of 500,000 or even 1,000,000 bushels of grain would cause very little market fluctuations. But were it not for the Chicago market, an offer of that amount of grain in the Kansas City market would cause a considerable downward fluctuation. This illustrates that a large market is less subject to violent fluctuations than a small market, and since a large market is made by speculation, it follows that speculation stabilizes the market and minimizes price fluctuations.

NOTE.—The following authorities point out that speculation has the effect of stabilizing the market and minimizing price fluctuations: Boyle on Speculation and the Chicago Board of Trade, 122, 179; Opinion of Mr. Justice Holmes in Board of Trade *v.* Christie (198 U. S. 247); Hadley on Speculation, see Article in the Functions of Legitimate Exchanges, 221, 222; Weld on the Marketing of Farm Products, 351; Emery on Speculation, 121, 122, 127.

Breadth of market.—Another beneficial effect of speculation is to broaden the market. The speculators are ever present in the pit, ready to buy or sell upon the slightest market variations. The combined purchasing capacity of this entire body of speculators is far in excess of the supply of actual grain; so, on the other hand, is their combined selling capacity far in excess of the demand for actual grain. Thus, farmers and others having actual grain to sell, are always certain to find buyers; equally, millers and others desiring to contract for a supply of actual grain are always certain to find sellers. The result is a broad, active and continuous market which is capable, at any particular moment, of (1) supplying any demand which may be made for actual grain, (2) absorbing any supply of actual grain which may be offered for sale, as well as (3) insuring against loss, grain owners and others who seek, through hedging operations, to avoid the speculative risks incident to grain ownership.

In this connection, it should be pointed out that no market can be free, open and competitive unless there be perfect freedom of action as to buyers and sellers. Any restriction as to the persons who may buy or sell, or as to the quantities which may be bought and sold, necessarily restricts and circumscribes the market, and tends to impair or destroy its efficiency.

NOTE.—The following authorities point out that speculation broadens the market and makes it possible at any particular moment to buy or sell any desired amount of grain either for actual delivery or for hedging purposes: Boyle on Speculation and the Chicago Board of Trade, 176–180.

Registration of values.—A third beneficial effect of speculation is that it determines and registers values. Thus, any grain owner at any particular moment may ascertain the precise salable value of his holdings. Compare, in this respect, the owner of grain with the owner, for example, of real estate. The two commodities are perhaps

equally fluctuating in price, and hence equally speculative. But the precise value of land is almost hopelessly problematical; it can only be determined by the price which some customer is willing to pay. The customer may be difficult to find; days, months, or years may be given over to his discovery. After his discovery, many days more may be consumed in price negotiations. These negotiations finally determine the salable value of the land. As opposed to this, the grain owner, at any particular moment of any particular day, may ascertain the precise salable value of his grain, and if he desires, its sale may be effected almost instantaneously. Thus, all grain owners benefit by accurate and continuous market quotations. Such quotations are made possible largely as the result of speculation, for without speculation (as we have seen) there could not be a sufficiently broad and active market to make such quotations either accurate or continuous.

NOTE.—The following authorities point out the value of speculation in connection with the determination and registration of market values: Boyle on Speculation and the Chicago Board of Trade, 180; Emery on Speculation, 120.

Effect on monopoly.—A fourth and perhaps the greatest advantage of speculation is that it prevents monopoly. This may best be demonstrated by considering the natural tendencies of the grain business in the absence of a speculative grain market. Without speculation, as we have already shown, hedging would become impossible, and elevator owners, who now hedge practically all of their holdings, would be compelled to assume the risks of ownership between the periods of production and consumption. Furthermore, with speculation prohibited, and all speculative purchasers driven from the market, there would be no one interested in purchasing grain between the periods of production and consumption except the elevator owners and a comparatively small array of grain dealers whose interests would be identical with the elevator owners. As a matter of habit and history, if not as a matter of necessity, the farmer sells his grain shortly after harvest. The ultimate consumer, on the other hand, does not buy except as his needs are manifest. So that, in most cases, the ultimate consumer buys long after the farmer has sold. Hence (in the nonspeculative market which we have assumed) the elevator owners and their allied dealers would be mutually interested in buying from the farmers at the lowest possible price and selling to the consumers at the highest possible price.

In the present speculative market there are no such conflicting interests, for the dealers and elevator owners hedge their purchases at the time they are made; hence, they have nothing to gain either by purchasing at low-price levels or by selling at high-price levels. But in the assumed nonspeculative market, all dealers and elevator owners would become adversely interested both to the farmer and the ultimate consumer; their interests would be to buy low and sell high. And both at the time of buying and selling they would be free from the enormous competition of the speculators whose combined selling and buying capacity now largely exceeds their own. In other words, the prohibition of speculation would not only make it to the interest of dealers and elevator owners to combine against both producers and consumers, but at the same time such prohibition would render such a combination comparatively easy by eliminating the powerful competition which now renders such a combination

impossible. By thus creating the incentive for such a combination, and at the same time making its accomplishment comparatively easy, the result, in the present state of human nature, can hardly be regarded as doubtful. Beyond all question, a nonspeculative market would tend to concentrate the grain business into a few powerful hands. Indeed, under such conditions, it would be impossible, as at present, to engage in the grain business on a small capital. This is now possible because dealers may operate largely on credit, without the risk of loss from fluctuations in price. But if there were no market for hedging, and dealers were required to assume the risk of a falling market, it is obvious that a small dealer, operating extensively on credit, might suffer the loss of his entire capital on a comparatively small market decline. Such conditions would speedily drive the small dealer from the market, and increase the tendency toward monopoly.

NOTE.—The following authorities point out that speculation prevents monopoly and insures active and continuous competition in the purchase and sale of grain: Boyle on Speculation and the Chicago Board of Trade, 181.

The evils incident to speculation are largely exaggerated. While the system may not be perfect its advantages so far outweigh its deficiencies that its attempted prohibition would result in little economic benefit and very considerable economic harm.

Gambling.—The difference between speculation and gambling has been pointed out. It has also been shown that a speculator, who buys or sells in the open market performs a valuable economic function. On the other hand, if A merely makes a bet with B that the market will go higher or lower, nothing of economic value is the result. Such a transaction is gambling pure and simple. Such is the character of transactions in so-called "bucket shops." In such a place the "customer" buys grain at the current price indicated on a blackboard. The "proprietor" fills the order by "selling" the grain to the customer at the specified price. The order is not executed on any competitive market. Neither customer nor proprietor intends the delivery of any grain. Later, the customer's "purchase" is offset by a "sale" at the blackboard price then current. A settlement is then made on the basis of price differences, to the disadvantage of the customer by two unearned commission charges. In every such settlement, the loss of the customer is the gain of the proprietor, or vice versa. Obviously, such a transaction involves none of the elements of a legitimate speculation in grain. In the first place, the legitimate speculator buys and sells in the open market. His purchase and sale price not only follows but actually determines and registers the market price for the time being. This is not true of a bucket-shop transaction. In the next place, the speculator makes a contract which calls for the delivery of actual grain. If he is the seller, delivery may be demanded of him; if he is the buyer, he may compel delivery under his contract. This is not true of a bucket-shop transaction.

Again, the speculator, irrespective of his own purposes, is dealing in a market where actual grain is being purchased and sold and where actual grain owners are very largely engaged in hedging operations for their own protection. For reasons sufficiently given, a speculative purchase or sale in such a market is of unquestionable economic benefit. None of these things are true of bucket-shop

transactions. Hence, it is both consistent and proper that legitimate speculation should be upheld, although bucket-shop transactions are prohibited.

In most of the States bucket-shopping is prohibited by the criminal laws. In many States, such as Illinois, the statutes go further and prohibit all contracts for the future delivery of grain which do not contemplate the actual delivery of the grain. Unquestionably these statutes go as far as it is practicable to go toward the suppression of gambling in grain. In Illinois the courts have construed the statutes so strictly in some cases as even to jeopardize legitimate speculation. But, notwithstanding the statutes and their strict construction in Illinois and elsewhere, the bucket shops continued to flourish until their suppression was brought about by the Chicago Board of Trade itself. This was accomplished by a series of litigated cases wherein the bucket shops were finally enjoined from using the continuous market quotations, which were held to be the exclusive property of the Chicago Board of Trade. This principle, established by the Supreme Court of the United States, has since enabled the legitimate exchanges to stamp out practically every bucket shop in the United States. It thus appears that gambling and speculation are to be widely differentiated. Instead of permitting or encouraging gambling, the legitimate exchanges are its most relentless enemies, and have exercised all of their powers to bring about its eradication.

NOTE.—The following authorities distinguish between speculation and gambling: Boyle on Speculation and the Chicago Board of Trade, 89, 116-120; Hadley on Speculation, see article in the Functions of the Legitimate Exchanges, 221-222.

Market manipulation and corners.—It is frequently urged that a speculative market lends itself to market manipulation, fictitious prices, and corners. The reverse is true. A speculative market is a continuous battle ground whereon is waged an unending conflict between competitive interests. Such a market affords the greatest possible measure of protection against either manipulation, fictitious prices, or corners. This does not mean that a speculative market is absolutely free from market manipulation. But the manipulation does not result from the speculative character of the market; on the contrary, it exists (if at all) in spite of the speculative character of the market. The fact is that all commodity markets are subject to manipulation, but it is more difficult to manipulate a speculative market than a nonspeculative market. Ordinary commodities, not dealt in on exchanges, and particularly those subject to the influence of monopoly, are subject to comparatively easy price manipulation. But the manipulation of the grain market in a pit filled with antagonistic speculators is a task of much greater difficulty.

What is true of manipulation is more notably true of corners. In a competitive market of the present magnitude of the Chicago Board of Trade, a corner is practically impossible. In the early days, a few corners were successfully operated, and the spectacular publicity which attended them has kept alive in the public mind the possibility of their recurrence. In point of fact, no such recurrence is now possible. In the first place, any attempt to operate such a corner is in violation of the Federal anti-trust laws. (U. S. v. Patten, 226 U. S., 525.) In the second place, the competitive conditions and other difficulties militating against the successful operation

of such a corner would be unsurmountable. Aside from all of this. the profit now to be expected from running a successful corner would not compensatefor the risk. Formerly, a person who was successful in cornering the market could compel the shorts to cover by purchase ing from him at a price fixed by himself. Under the present rules of the Chicago Board of Trade, this is no longer possible. Now, if a short fails to make delivery, he is merely required to respond in damages for the difference between his contract price and the actual commercial value of the grain which he agreed to deliver. In the case of a fictitious market due to a corner, this actual commercial value would be materially less than the market price. The profitable possibility of the spectacular squeeze has thus been eliminated by the simple process of a change in the rules of the board of trade.

In this connection, it may be pointed out that while prices may undoubtedly be advanced by manipulation, particularly where manipulation goes so far as to establish a corner, it is impossbile to permanently manipulate prices downward. The reasons for this will be pointed out in connection with the subsequent discussion of short sales.

NOTE.—The following authorities discuss the subject of corners and market manipulation: Weld on the Marketing of Farm Products, 321; Boyle on Speculation and the Chicago Board of Trade, 62–78, 143–152; Emery on Speculation, 173.

Short sales.—It is sometimes argued that admitting the economic desirability of a speculative market, there should nevertheless be prohibition of short-selling. The argument is that the short seller unnaturally depresses prices by throwing upon the market a non-existent and fictitious supply of grain. The fallacies of this argument are easily demonstrable. In the first place, to permit speculative buying and at the same time to prohibit speculative selling would utterly upset the balance of the market. In effect, such a law would say to the speculator, "You may speculate if you buy first and sell last, but not if you sell first and buy last." Such a mandate, at least theoretically, would permit the speculative "bulls" to manipulate prices upward ad infinitum, without the slightest fear of any counteracting influence from the "bears." Of course, the practical effect of such a condition would be to destroy the speculative market entirely.

But what force has the suggestion that short selling depresses prices by creating a fictitious supply of grain? If there was no method of judging the supply except by the amounts offered for sale, the argument would be forceful. But in such a market as the Chicago Board of Trade, when publicity is given to every fact. gathered from every corner of the world, which bears in the slightest degree upon the question of grain supply, the amount of grain offered for sale by short selling speculators neither deserves nor receives the slightest consideration as bearing upon the question of actual supply. It follows that short-selling does not create a fictitious supply of grain, and, of course, this disposes of the argument that a fictitious supply depresses prices.

There are further reasons why, in the nature of things, short selling can not have the effect of depressing prices. In the first place, any short sale is a purchase as well as a sale. There must be a buyer else there can be no seller. If there are "bears" willing

to offer a "fictitious" supply, there are also "bulls" willing to bid for a "ficititous" supply. But both offers and bids are made with reference to the actual supply, and neither is influenced in the slightest degree by any "fictitious" supply. It follows that the depressing influence of the offers is offset by the elevating influence of the bids, so that the net influence of short selling upon prices is exactly nothing.

If, however, the immediate effect of a short sale is to depress prices, its ultimate effect must be to elevate prices. For every short seller must equalize his short sale by a subsequent purchase. And if his short sale depresses the market by any ascertainable fraction, his subsequent purchase must elevate the market by exactly the same fraction. And where, as in the Chicago Board of Trade, such transactions are both continuous and multitudinous, the net result upon prices can be nothing except zero.

There is a final and conclusive reason why short selling for future delivery can not depress the price of cash grain. The short sale, when made, is not a transaction in cash grain. And since cash-grain prices are determined by the actual supply, the cash price can not be materially influenced by a mere offer to sell short for future delivery. But where there is a short sale for future delivery, and the delivery month subsequently arrives the short seller, unless he has sooner covered, must then buy cash grain with which to make delivery under his contract. The short seller thus forcibly becomes a cash buyer, and any influence of his cash purchase will be for higher and not for lower prices.

NOTE.—The following authorities discuss the subject of short selling, and point out that a speculative market without short selling would neither be possible nor desirable. Report of Industrial Commission, volume 6, page 189; Weld on the Marketing of Farm Products, 354; Emery on Speculation, 121.

Excessive speculation.—It is claimed by some that speculation is excessive, and this claim is sought to be proved by the fact that the trades in grain on the Chicago Board of Trade are many times in excess of the total receipts of grain in Chicago. It is argued that these excessive sales are gambling transactions, and not legitimate sales of grain. The conclusion does not follow the premises. The fact that sales exceed receipts merely proves that the same grain is sold more than once. In a speculative market this would naturally be expected; in fact, the volume of trading is advantageous in that it gives a breadth to the market which would not otherwise exist. Furthermore, the excess of sales over receipts may largely be accounted for by hedging transactions. Vast quantities of grain which never come to the Chicago market are nevertheless hedged in the Chicago market. In fact, the Chicago market is practically the clearing house of the world for the purpose of price insurance. Dealers in Europe, Argentina, and Australia use the Chicago market for hedging operations. Grain dealers in Omaha, Kansas City, St. Louis, New York, Baltimore, Boston, Winnipeg, Montreal, and hundreds of other cities use the Chicago market for hedging purposes. The grain handled by these dealers may never come to Chicago, nevertheless these hedging operations protect these grain owners against price fluctuations while the grain is being handled in their home markets.

Furthermore, dealers in Chicago annually handle many millions of bushels of grain which never come to Chicago, but which are purchased in one market and consigned to another. These dealers invariably use the Chicago market for price protection.

Exporters purchasing grain at various country points and consigning it to the seaboard for export almost invariably hedge their holdings on the Chicago market, although the grain may never come to Chicago. Furthermore, with the change of market conditions speculators may desire to decrease the amount of their holdings, thus passing on to other speculators a part of the risk originally assumed. Such operation is strictly analogous to that of an insurance company which takes on a large risk and subsequently distributes it in part among a number of insurance companies. This accounts for many sales on the Chicago market which may take place between the speculators themselves. Such sales amount to nothing more than a redistribution of the risks originally assumed. It must also be remembered that between the producer and consumer the same lot of grain may change ownership many times, and that each change of ownership may be accompanied by two hedging operations. This may be made apparent by tracing the history of a particular lot of grain from producer to consumer, thus:

First. A Minnesota farmer may have a crop of wheat in the ground, and before it is harvested he may be satisfied with prevailing prices, and may hedge by selling futures short on the Chicago Board of Trade.

Second. Later, after the crop of wheat is harvested, it may be sold by the farmer to a local dealer in a near-by town. Upon such sale, the farmer removes his hedge by purchasing futures on the Chicago Board of Trade.

Third. When the local dealer buys from the farmer, the dealer may hedge by selling futures on the Chicago Board of Trade. This hedge will protect the local dealer while the wheat is being transported to town from the farm and until it is sold by the local dealer.

Fourth. Later the local dealer may sell the wheat to a local elevator company. Upon making this sale, the local dealer will remove his hedge by purchasing futures on the Chicago Board of Trade.

Fifth. When the local elevator company buys from the local dealer, the local elevator company may hedge by selling futures on the Chicago Board of Trade. This will protect the local elevator company during the period that the wheat remains in the local elevator.

Sixth. Later, the local elevator company may sell the wheat to a Minneapolis cash grain house. Upon making such sale, the local elevator will remove its hedge by purchasing futures on the Chicago Board of Trade.

Seventh. When the Minneapolis cash grain house purchases the wheat from the local elevator company, the Minneapolis cash grain house may hedge by selling futures on the Chicago Board of Trade. This will protect the Minneapolis cash grain house while the wheat is in transit from the local elevator to Minneapolis.

Eighth. Later, the Minneapolis cash grain house may sell the wheat to a Chicago cash grain house. Upon such sale, the Minneapolis cash grain house will remove its hedge by purchasing futures on the Chicago Board of Trade.

Ninth. When the Chicago cash grain house buys the wheat from the Minnesota cash grain house, the Chicago cash grain house may hedge by selling futures on the Chicago Board of Trade. This will protect the Chicago cash grain house while the wheat is in transit from Minneapolis to Chicago.

Tenth. Upon the arrival of the wheat in Chicago, the Chicago cash grain house may sell the wheat to a Chicago elevator company. Upon such sale being made, the Chicago cash grain house will remove its hedge by purchasing futures on the Chicago Board of Trade.

Eleventh. When the Chicago elevator company buys the wheat from the Chicago cash grain house, the Chicago elevator company may hedge by selling futures on the Chicago Board of Trade. This heldge will protect the Chicago elevator company while the wheat is stored in its elevator.

Twelfth. Later, the Chicago elevator company may sell the wheat to a miller in Akron. Upon such sale being made, the Chicago elevator company will remove its hedge by purchasing futures on the Chicago Board of Trade.

Thirteenth. When the Akron miller purchases the wheat from the Chicago elevator company, the Akron miller may hedge by selling futures on the Chicago Board of Trade. This will protect the Akron miller while the wheat is in transit from Chicago to Akron, and also while the wheat is being manufactured into flour.

Fourteenth. Later, the Akron miller may sell the flour into which the wheat has been converted, at which time he will remove his hedge by purchasing futures on the Chicago Board of Trade.

What has been said should dispose of the contention that speculation is excessive. In this connection, it should be mentioned that in a case before the Supreme Court of the United States it was contended that most of the transactions on the Chicago Board of Trade were gambling transactions, and to support the contention it was shown not only that sales exceeded receipts by many times, but also that a vast majority of such sales were settled before maturity without actual delivery of grain. It was held that these facts did not impeach the legitimate character of the transactions. Speaking through Mr. Justice Holmes, the court said:

> It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in this country are to be regarded as mere wagers or as "pretended" buying or selling, without any intention of receiving and paying for the property bought, or of delivering the property sold, within the meaning of the Illinois act. Such a view seems to us hardly consistent with the admitted fact that the quotations of prices from the market are of the utmost importance to the business world, and not least to the farmers; so important indeed, that it is argued here and has been held in Illinois that the quotations are clothed with a public use. It seems to us hardly consistent with the obvious purposes of the plaintiff's charter, or indeed with the words of the statute invoked.
>
> The sales in the pits are not pretended, but, as we have said, are meant and supposed to be binding. A set-off is in legal effect a delivery. We speak only of the contracts made in the pits, because in them the members are principals. The subsidiary rights of their employers where the members buy as brokers we think it unnecessary to discuss.
>
> In the view which we take, the proportion of the dealings in the pit which are settled in this way throws no light on the question of the proportion of serious dealings for legitimate business purposes to those which fairly can be classed as wagers or pretended contracts. No more does the fact that the contracts thus disposed of call for many times the total receipts of grain in Chicago. The fact that they can be and are set off sufficiently explains the possibility, which is no more wonderful than the enormous disproportion between the currency of the country and contracts for the

payment of money, many of which in like manner are set off in clearing houses without anyone dreaming that they are not paid, and for the rest of which the same money suffices in succession, the less being needed the more rapid the circulation is. (Board of Trade *v.* Christie, 198 U. S., 249-250.)

Marginal trading.—Marginal trading is sometimes objected to. The objection is founded on the plainest misunderstanding. The objection is that the purchaser of grain should be required to pay cash at the time of his purchase, and not permitted to trade upon a comparatively small marginal deposit. The answer is that the purchaser does not receive delivery of any grain at the time of the purchase, and there would be neither sense nor justice in compelling him to pay the purchase price until he receives delivery of the thing purchased. A man ordering a suit of clothes to be made and delivered in the future ordinarily pays for the suit when it is delivered, and not when it is contracted for. If he is unknown to the tailor, he may be asked to make a small deposit with his order. Such an initial deposit corresponds precisely with so-called "margins" in the grain trade. The purchaser is not required to pay the entire purchase price for the simple reason that it is not due, and the marginal deposit is required, if at all, for the mere purpose of securing the other party against a possible breach of contract. That such is the purpose is manifest from the fact that under the board of trade rules, sellers as well as buyers are required to deposit margins on demand.

Aside from the foregoing, the most that could possibly be said against marginal trading is that it constitutes trading on credit as distinguished from trading for cash. And this objection amounts to exactly nothing. If trading in all commodities was required to be on a strictly cash basis, the volume of the world's trade would undergo such a contraction that economic upheaval would be the result. Most of the business of the world is done on credit, and the economic value of credit is undoubted. No legislator would sanction a law to generally prohibit trading on credit. Why, then, should it be suggested to prohibit trading on credit in grain? To single out a particular industry and to prohibit credit transactions in that industry would be discrimination of the worst order.

NOTE.—The following authorities discuss the subject of Marginal Trading: Boyle on Speculation and the Chicago Board of Trade, 26.

Legislative attempts to suppress speculation have uniformly proven unsuccessful.

In 1896, at the instigation of the Agrarian or Farmers Party, Germany abolished future trading in grain on the German exchanges. After a disastrous experience covering a period of four years the law was repealed. The principal effects of its operation, as detailed in the American Consular Reports, may be summarized as follows:

First. The Berlin grain market, which had been one of the most influential markets in Europe, degenerated to the rank of a provincial market.

Second. The prosperous business of the Berlin Produce Exchange was completely ruined.

Third. Practically all commission merchants in grain were driven from business.

Fourth. A large volume of grain business, theretofore transacted in Germany, was driven to London, Antwerp, and Amsterdam.

Fifth. There was a marked diminution in the size of grain stocks carried in store in Berlin and other German cities.

Sixth. Price fluctuations were wider and more violent.

Seventh. There were no reliable market quotations, and no fixed and established prices. The result was to leave the farmers subject to price dictation by local traders and millers.

Eighth. Dealers in grain, compelled to assume the speculative risks of price fluctuation, paid less to the farmers and charged more to the consumers.

Ninth. The business of the small grain dealer was rendered exceedingly precarious. Many of such dealers were ruined and many others driven from business. This resulted from the fact that such dealers, operating largely on credit, were compelled to carry the speculative risks of a market subject to wider and more violent fluctuations.

(See United States Consular Reports, vol. 54, No. 243, December, 1900, quoted at length in Boyle on Speculation and the Chicago Board of Trade, 188.)

Yesterday at the conference Mr. Gates asked for certain figures from the Federal Trade Commission, which have since been furnished, and I should like to have them inserted in the record. These figures show the volume of trading in wheat in the Chicago market from July 15 to October 31, inclusive, 1920. The July volume of trade was 25,000,000 bushels; August, 86,000,000 bushels; September, 196,000,000 bushels; October, 420,000,000 bushels.

I might say in connection with these figures that the great complaint from the West about the reduction in the price of wheat occurred prior to the 1st of October, and during that time the volume of wheat trading on the Chicago Board of Trade was as low as 7 per cent of the total trade, as shown by the Federal Trade Commission, whereas the normal ratio is about 50 per cent. Consequently the trading in wheat of all characters, speculative and nonspeculative, at times during the period of depressing values was as much as 15 per cent in relation to normal trade activity.

Further in connection with this subject of the resumption of trading in wheat, I think an explanation is due this committee. As Mr. Gates so elaborately explained yesterday, our wheat machinery was in a state of idleness for approximately three years. Naturally, when that resumed its functions it was not a perfect piece of machinery. The situation of the grain exchanges was this:

Under the Lever law the President of the United States was obliged by law to provide an open market when the wheat administrator ceased to function. I think a certain time was prescribed. The grain trade were naturally aware of the expiration of that law, and they had numerous conferences among themselves and the milling, trading, and other elements of the trade concerned in this matter. They also held conferences with officials at Washington, including the wheat administrator, and I believe—although I do not speak advisedly; I was not an official after that time, but I am quite certain they also spoke with administrative officials. They desired further light.

As a result of these trade and official conferences the exchanges were asked to resume future trading in wheat, to provide an open market. The Government guaranty was being removed. New

crops were coming onto the market. I think not less than 50 per cent of the members of grain exchanges thought it inexpedient to open as early as July 15. I think I can say advisedly that 50 per cent of the membership of the Chicago Board of Trade would have preferred to wait until December or January.

The reasons for these conclusions on the part of people in the grain trade were many. The principal reason was that there was no commercial stock of wheat; the entire stock for three years had been accumulated by one concern, the Government. Private individuals owned no grain. Consequently the resumption of wheat trading occurred at a time when everything was topsy-turvy. We do not claim that even yet it has assumed or is assuming its full normal functions.

During the discussion yesterday some reference was made to Argentina, and the question was discussed as to whether they had an open market for future trading, and Mr. Gates asked me to speak briefly on that subject.

There is in Buenos Aires a semblance of a future market, but the grain trade of Argentina is controlled; it is virtually monopolized by four or five large European firms. Some of them, I am told, have a capital of two or three hundred millions of dollars. We found, for instance, during my official experience on the board in 1916 and 1917, that the quotations down there were manipulated. I can recall one day when the conditions were extremely bullish: every element bearing on supply and demand known to the trade at that time would warrant an advance, and our domestic markets did advance. Argentine cables came in to us the next day quoting from 8 to 12 cents a bushel lower, and that price was kept up for some time until our board forbade its members to advise their trade of Argentine quotations, on accouut of their unreliability and the fact that it was not a natural market.

Now, there are some few statements that I want to make here. You might call them confessions of faith, or even admissions, but they are an honest and sincere expression of the attitude of not only our officers but the members of the exchange.

The first statement is that the present machinery of the grain exchanges of the United States, and particularly the Chicago Board of Trade, can not function without speculation.

The exchange method of marketing crops can not survive unless buyers and sellers are allowed perfect freedom of action in making contracts.

Without speculation, hedging or price insurance is impossible.

Further, without hedging, as has been explained, the spread between the producer and the consumer would widen. That margin of profit is small, due to intensely competitive conditions existing between markets as well as individuals, and because the risk can largely be eliminated. In the absence of the functioning of this present marketing system, the spread between the respective elements referred to, the producer and consumer, would not be determined by the value of the service, but rather the gauge would probably be the dealer's risk.

Without a proper hedging market, men of small means would be driven from the grain business. Owing to the great risk of price fluctuation, bankers would not extend credit to farmers without

ample capital to guarantee the banks against loss in case of adverse market fluctuation.

I think, Mr. Chairman, that that will for the present complete my statement.

Mr. DICKINSON. Mr. Griffin, would you consider it advisable to allow future trading on other commodities?

Mr. GRIFFIN. I believe that all commodities that can be standardized and that are not perishable would have a much better market and a more narrow spread between the producer and the consumer in that event.

Mr. EVANS. I may be going outside of your information; if I am, I wish you would say so, and I shall not bother you.

Can you tell me what the difference in price is between Missouri River points on wheat and New York market prices and Liverpool prices?

Mr. GRIFFIN. At what period of time?

Mr. EVANS. As it runs along generally under normal trade conditions. I take it that when trade is normal the spread will be practically the same, will it not?

Mr. GRIFFIN. Not necessarily.

Mr. EVANS. Well, explain as fully as you can.

Mr. GRIFFIN. If all the grain were flowing in one direction and flowing to the same outlet, such as export, the conclusion implied in your question would be correct. Wheat in Kansas, for instance, would bear the same price relation that wheat in Chicago has, reflected by the freight difference. But there are other factors that enter into price making. For instance, the Southwest may have a poor crop of wheat, and there may be almost an insufficient supply of wheat for local and near-by milling distribution.

Mr. EVANS. None of that would flow through Chicago?

Mr. GRIFFIN. None of that would flow through Chicago, necessarily, but the Kansas market under those conditions might be higher than Chicago. Tributary to the latter market there might be an abundant supply of wheat.

Mr. EVANS. Bear in mind this fact, that we are talking about wheat which flows from Missouri River points to the Atlantic Ocean and across. Now, then, give the information if you have it.

Mr. GRIFFIN. Of course the flow of wheat from the territory tributary to Kansas City would not be in the same path or in the same direction.

Mr. EVANS. I understand that——

Mr. GRIFFIN. Let me explain; it would be toward the Gulf.

Mr. EVANS. It would be toward the Gulf; I understand that.

Mr. GRIFFIN. That would be a matter of freight calculation, which I could not handle.

Mr. EVANS. I will tell you what I am getting at. Take wheat that flows east in places and south in places; can you take up that kind of a case?

Mr. GRIFFIN. I could if I had the freight calculations.

Mr. EVANS. Then you have not got the information?

Mr. GRIFFIN. No; I am not in the export business.

Mr. EVANS. Then I will put another question. What is the difference in price at Omaha and New York City and Omaha and Liverpool and the actual transportation charges between the same points?

Mr. GRIFFIN. The difference in what?

Mr. EVANS. In the price of wheat. For instance, suppose the price of wheat to be $1.10 in Omaha, what will the price be in New York?

Mr. GRIFFIN. The sale price?

Mr. EVANS. The sale price. What will the price be in Liverpool?

Mr. GRIFFIN. The price will be the cost of transportation plus—that is the sale price.

Mr. EVANS. I am talking about the sale price.

Mr. GRIFFIN. It is sold at Omaha at $1.10, and the price at the ultimate destination would be that price plus the cost of transportation to its destination.

Mr. EVANS. So that all your operations in the board of trade had absolutely no effect upon the price between Missouri River points and trans-Atlantic or Atlantic points?

Mr. GRIFFIN. No; I do not know whether the board of trade concerns itself with or has any facilities in respect to the matter of transportation.

Mr. EVANS. I guess I am not definite. Let me take it from North Dakota. It is selling at any particular point in North Dakota for a given price. It is shipped by that elevator to a terminal elevator in Duluth or at Chicago. It is there held by certain persons, and is ultimately shipped from there to New York City, and the man there sells it on arrival to somebody in Liverpool.

Now, what I am trying to get at is this. On a given day, the price being $1.10 at the North Dakota point, what would it cost, if anything at all, by reason of the fact that wheat had been sold through the board of trade in Chicago? Do you catch what I am getting at?

Mr. GRIFFIN. I would like to answer you responsively, Congressman, but I really do not observe your point.

Mr. EVANS. I will try to make it clear. What I am trying to find out is what you people who work on the board of trade get out of a bushel of wheat which goes through your point, and on which you benefit by the trading. You are certainly not purely philanthropists; it must cost something?

Mr. GRIFFIN. No; we are probably in business for the same reason that actuates everybody.

Mr. EVANS. I know you are, and you are entitled to a certain amount, and when you say that wheat is sold in New York City at $1.10, the Omaha price, plus transportation, that at once suggests that you do not get anything for the work you did.

Mr. GRIFFIN. Well, you are involving several transactions, as I take it, at varying periods of time. You start a carload of wheat at Omaha, and that man holds it for a while, and then the Chicago dealer holds it for a while, and when it comes to New York he holds it for a while, and he finally disposes of it to an exporter in Europe, and what the Chicago man gets out of it, if you refer to the hedgers, is the commission, unless he himself is a member of the board of trade and handles the transaction himself and pays no commission.

I want to answer the Congressman, Mr. Chairman, but I think any practical man in the trade here will tell you that his question is very involved and not clear.

Mr. EVANS. Very well; I will let it go then.

Mr. TINCHER. The Committee is under obligation to you, Mr. Griffin.

STATEMENT OF MR. D. L. BOYER, MEXICO, MO., REPRESENTING MISSOURI GRAIN DEALERS' ASSOCIATION.

Mr. BOYER. Mr. Chairman and gentlemen, our purpose in requesting the privilege of appearing before this committee was not to approve or condemn the present system of future trading, but to state briefly the general effect any legislation which would restrict the volume of trading to an extent of affecting legitimate hedging operations.

The volume of purchases and sales for future delivery in our smaller hedging markets is not greater than is sufficient to take care of ordinary hedging operations. In this statement I refer particularly to the St. Louis market, because of the fact that it is our principal wheat market, and for that reason I am more familiar with it than other hedging markets.

Should purchases and sales for hedging account only be permitted in the St. Louis market, it would cease to be a market for future delivery and as such would completely dry up, as happened in Toledo, Ohio, which would materially affect it as a cash grain market.

Our producers and other producers in the territory tributary to the market would be seriously injured, as elevators and mills in this market would be handicapped by the hazardous procedure of hedging in Chicago, which would be their only alternative, presuming, of course, that there would still be a sufficient volume in the Chicago market to permit of hedging operations.

That, gentlemen, is all I have to say. If there are any questions the gentlemen of the committee would like to ask relative to my statement, I will be glad to try and answer them.

Mr. TINCHER. We are very glad to have had you here, and we are under obligations to you. I have no questions.

STATEMENT OF MR. JOHN O. BALLARD, ST. LOUIS MERCHANTS' EXCHANGE, ST. LOUIS, MO.

Mr. BALLARD. Mr. Chairman and gentlemen of the committee, the members of our organization feel very apprehensive in regard to any action that would seriously affect hedging operations. We believe that it will prove detrimental to the producer and to the consumer, and eventually result in the grain trade of this country falling into the hands of a few strong interests.

The handler of grain receives a much smaller compensation than is received by the dealer in any other commodity, and that is due to what has been termed here a constant market.

I will give a specific case. Our firm has recently been buying corn in Nebraska. These people go to St. Louis on a margin of profit of about three quarters of a cent a bushel. We would not undertake to handle it for anything like that small margin if we were not in a position to hedge this grain when purchased, and also the ability to handle it in considerable volume. Such of this grain as has arrived has gone into the hands of the consumers and exporters.

If when we bought this grain we had to depend on another hedger, that is a man who came into the market to buy as a hedge, we might have to wait before we could get a purchaser, and then we would have only half of the transaction; we would later have to take off our hedge when we undertook to sell it.

If we had no facilities for hedging, even with the present low price of corn, gentlemen, we would not undertake to buy it at 10 times the profit I tell you we are getting. I firmly believe—and I am a bull at heart, I have no stomach for short selling—that if you prohibit short selling and encourage purchases only for long account, while that will temporarily and for a certain period give you a strong market, there is no question in my mind but what it will give you quite an advancing market—I believe the commodities under those conditions will go above their actual value—but in doing you so would create an unwieldy and scattered long interest in the market. It is always full of danger. And when liquidation periods came around, or when it became necessary through various developments which are bound to arise from time to time, or when it became desirable for these men to get out of their long contracts, I feel sure you would have very drastic contracts. In fact you would have demoralized markets, because there would be no stabilizing influence; there would be no constant interests.

The grain exchanges simply furnish machinery for handling, buying, and selling cash grain, and also buying and selling for future delivery; and I know positively that a large per cent of the influential members of the grain exchanges were very apprehensive about resuming trading in wheat when the Grain Corporation expired. I was one of them, and I advocated against it strongly. We have this abnormal condition. A great many people who were well posted in the trade thought that in 1917, when the British bought up our wheat, that wheat might go to $2 or $3. In that case we would have had the consumer on our back. Then, of course, we would have a period of readjustment to go through, when of course the producer would be dissatisfied.

I have heard it stated here that the wheat crop sold 14 times over before it was thrashed, in one case, or before it was harvested in another case. As a matter of fact, wheat was moving in large volume in St. Louis and other southwestern markets before July 15, and during the early weeks or the first two months after wheat trading was resumed we had a demonstration of a hedging market. Speculators kept out of the market. There was practically no speculation in the early part of the trading in wheat, and I have never seen a more unsatisfactory market, where the fluctuations were wider. A small order would frequently turn the market sevearl cents; in fact, an order for the minimum amount would frequently turn the market 2 cents either up or down.

I have heard comment here about the large percentage of trades in the Chicago market—and this would apply to other markets—of a speculative nature. I do not think that that can be determined. If an exporter finds a good outlet for stuff and he is selling, he is not telling his competitors about it, and when he gets orders for hedges to be put on the market he wants his commission man to keep that to himself, and the commission man knows that. The same thing is true of the miller. It is true in all lines. It is true in manufacturing lines as well as in the grain line, but particularly true, probably, in the grain line.

I am going to mention another specific case. In the last two or three years we have bought and carried as much as half a million bushels of corn for an exporter who had sold his corn to the West

Indies, and he made his contracts frequently 8, 9, and 10 months in advance. Yet there is argument against the 60-day contracts. He does not want that corn in Chicago; he could not use it in Chicago, but he felt it was of advantage to carry the hedge in the Chicago market. That hedge was turned over several different times from one man to another, and finally when time for shipment came he would buy his material in St. Louis or in the territory tributary to St. Louis, on top of his hedge.

In regard to the Argentine and the statement that the market there is controlled by three or four very rich concerns, I think it was about two years ago I saw that the quotations in the Argentine were materially under ours, and I gave a Chicago house an order to buy some grain for me there. I wrote that order in several times, and they finally came back and said it was impossible to trade there at all.

I do not know anything about cotton, but I have some friends who recently bought what was described to them and which was graded as low middling and slightly below middling, at 8½ to 10 cents per pound in Oklahoma, and they hedged that cotton in March at from $15 to $20, and they told me they were assured of an unusual profit. It seems to me that that speaks well for speculation.

Mr. TINCHER. It does not speak very well for the fellow that produced the cotton in Oklahoma.

Mr. BALLARD. No; it does not, but I have heard where some fellow in the South said that they welcomed with open arms anybody that would come down and pay cash for cotton.

There is another thing I wanted to speak about, and that is in regard to stabilization when we had no trading in futures. Of course we should have had a stable market with the rock foundation of a guaranty by the Government with a billion dollars behind it. But we did not have a stable market. There were some wide fluctuations during that period. In the early part of 1915 there was an enormous break in wheat, and about that time—I think it is a matter of record—at a hearing before Senator Gronna's committee the statement was made by a dealer in the Minneapolis territory to the effect that he could not sell within 30 cents a bushel of the Minneapolis price for the identical wheat which he had on hand. And I know that at about the same time wheat was offered in the elevators at Kansas City at 20 cents per bushel less than the identical wheat was selling for on the tables at the same time. While that was to a large extent due to transportation conditions, yet that condition would not have existed if we had had trading in futures.

Owing to voluntary action of the exchanges, trading in corn was practically suspended during the latter part of 1917 and early in 1918. That was due to the maximum price having been fixed on corn, which was away below the actual price, and that was brought about by agitation and pressure from Government officials.

Mr. Hoover, who was at the head of the Food Administration at that time, realizing the large profits that were being exacted by everybody who was handling corn and the extreme fluctuations which we were having in cash corn—it was not infrequent for cash corn to go up 5 cents one day, 7 the next, and maybe break 10 the next—asked that the exchange representatives get together and resume

trading in futures in corn, so as to establish a close relation between futures and cash corn and to bring about a more stable market. And that was done.

I believe that is all, gentlemen.

The CHAIRMAN. Are there any questions? There appear to be none. We are very grateful to you, Mr. Ballard.

Mr. BALLARD. Thank you, gentlemen.

STATEMENT OF MR. C. A. CHAPMAN, BANKER, ROCHESTER, MINN.

Mr. CHAPMAN. Mr. Chairman and gentlemen of the committee, I thank the committee for giving us this opportunity to appear here. What I have to say will be very brief, because I know you have better information than I can give you.

It came to the attention of the agriculture committee of the Minnesota Bankers' Association that it was being recommended to your committee to pass legislation to eliminate future trading, and our committee felt that it was of sufficient importance to us to have representatives appear and to express ourselves briefly on the subject. I am present representing the association, together with my colleague, Mr. Hubbard, of Lake City. We are country bankers.

The subject is important to us in this, that we are accustomed to invest our surplus loanable funds in terminal paper and to finance our local mills and elevators and likewise the cooperative grain houses in our territory; and if they are to be subjected to the wide swings in the market, which it appears to us would be present without the controlling influence of such a market as is under discussion here to-day, we would restrict our financing very greatly.

I have in mind one customer who is operating a small country house in a village near Rochester, whose operations are small, and who does not believe in hedging. He buys the grain and stores it. and in my opinion in so doing, without a hedge, he speculates; and I am therefore unwilling to finance him within 50 per cent as much as I do those who hedge their purchases by future sales against them.

As far as speculation is concerned, there is undoubtedly speculation and perhaps there are some elements in the speculation which legitimate commission houses would like to see excluded if they knew how it could be done. The bankers generally have been greatly concerned in the past year by the presence in the business volume of a measure of speculation, in every line, and if your committee were to undertake to eliminate it from the commodities market there are some other markets to which we would direct your attention.

I examined the statement of a man who deals in real estate. He was carrying $452,000 worth of real estate at the purchase price on his contracts, and he had what amounted to a margin against it of $25,000, and he was asking for credit from the bank. Now, if there had been any way in the world by which he could have hedged that half million purchase of real estate he might have talked to me, but he certainly could not with all that load. Fortunately, the market operated in such a way as to save his bacon.

The thing we want to say to you is simply this, that we hope you will gather the best information possible from the best sources, and that

you will leave the largest possible measure of this method of insurance against wide price swings in the commodities market, and leave the means of insurance against them, which we bankers feel to be essential in the maintenance of the market and to avoid those wide spreads between the final sale price and the price which the intitial purchaser in these little warehouses and elevators in the country pays the producer. Without insurance, they are going to name a price which in itself will insure them, and I do not know how low that might be.

That is all I have to say.

Mr. VOIGT. You are not in favor of manipulation in the market?

Mr. CHAPMAN. I do not know what you mean by "manipulation."

Mr. VOIGT. I mean a move, backed up by sufficient capital to actually cause a decided fluctuation.

Mr. CHAPMAN. You mean a corner?

Mr. VOIGT. I understand there may be a manipulation which does not result in a corner.

Mr. CHAPMAN. I am not in favor of manipulation. I believe the market should be open as nearly as it can be maintained as an open market without undue influence.

Mr. VOIGT. You have stated that you thought that the grain trade was in favor of remedying some abuses.

Mr. CHAPMAN. I do not recall just what I said, but I had in mind this: There might be some traders in the market who are not actually interested in the market except as speculators who might be eliminated. I do not know how much there is of that, but some measure of speculation it would seem is necessary to afford a future market; that is my impression. I am not an expert on this and do not profess to have any expert knowledge of it.

Mr. VOIGT. Is there any abuse now in the system of marketing grain that you would like to be abolished?

Mr. CHAPMAN. I know of none. I have seen some newspaper discussions which contained claims of large volumes of speculative trading from the country on the exchange, and asking that the bankers examine the volume of their financial business to see what percentage that might be, and I think it is very small, almost negligible, so far as I have observed in my business largely confined to those who are in the business, some department of it, either sales or elevators, and sometimes producers.

Mr. VOIGT. I understood you to say in your statement that you would be glad to see certain abuses remedied providing some means that carried the market were left? I want to ask you what abuses you had reference to.

Mr. CHAPMAN. I do not know of any.

Mr. VOIGT. Then, so far as you are concrened, you want to leave things in status quo.

Mr. CHAPMAN. Unless some better plan can be evolved which will leave us the same measure of protection which we have now. I am not competent to say what that better plan would be.

Mr. VOIGT. What would you think of a plan to restrict the amount of trading that any individual could engage in during a period of 30 days?

Mr. CHAPMAN. Well, the general principle—the moment you begin to restrict their market is that it ceases to be a free market.

Mr. VOIGT. Are you familiar with the operations undertaken by the British Government in this country last year?

Mr. CHAPMAN. I am not.

The CHAIRMAN. Is it customary for the men on the farm to store grain in this country?

Mr. CHAPMAN. They store some, yes.

The CHAIRMAN. Then they sell it?

Mr. CHAPMAN. They buy it off the producer and sell it again in the market.

The CHAIRMAN. Then it is necessary for them to have the privilege of hedging in order to store?

Mr. CHAPMAN. They feel it is.

The CHAIRMAN. Without having the capacity for storage?

Mr. CHAPMAN. Yes, sir. I would now like to call on Mr. Hubbard. of Lake City.

The CHAIRMAN. Very well.

STATEMENT OF MR. WILLIAM A. HUBBARD, PRESIDENT LAKE CITY BANK OF MINNESOTA, LAKE CITY, MINN.

Mr. HUBBARD. Gentlemen of the Congress, my statement will be brief. I am going to endeavor to represent so far as I am able the farmers of Minnestoa. I have not heard a representative of the farmers in here since my visit, and in so doing I will read a short letter. When the secretary of our association called me up on Tuesday morning, the Farmers' Cooperative Milling Co., stockholders were in session at their annual meeting, and I thought there was my first place to go.

The CHAIRMAN. At what point?

Mr. HUBBARD. At Lake City. I got this letter authorized by the stockholders and directors from the managing miller. [Reading:]

FARMERS' COOPERATIVE MILLING CO.,
Lake City, Minn., January 11, 1921.

Mr. WILLIAM A. HUBBARD,
Lake City, Minn.

DEAR MR. HUBBARD: You are to go to Washington to appear before a Senate committee in connection with a bill which has to do with regulation of selling of futures in farm products.

I wish to ask you on behalf of my board of directors, who are all farmers, to use all the influence you can to prevent the inclusion in the bill of any provision which will prevent or limit trading for hedging purposes. We consider hedging absolutely necessary to the success of our business, which is organized on the cooperative plan and has several hundred farmer stockholders. We are convinced from experience that if we could not freely hedge our wheat purchases, our farmer customers would lose through the larger margin of profit which we would of necessity have to have. Without hedging facilities our business would be highly speculative, instead of, as now, a conservative manufacturing business for a manufacturing profit only.

Yours, very truly,

CLARENCE FISHER, *Manager.*

I have another letter from a milling company, Tennant & Hoyt Co. [Reading:]

TENNANT & HOYT CO.,
Lake City, Minn., January 12, 1921.

Mr. WILLIAM A. HUBBARD,
President Lake City Bank of Minnesota,
Lake City, Minn.

MY DEAR MR. HUBBARD: In answer to your inquiry as to our views in regard to the proposed bill asking Congress to do away with option trading on the ground that it is gambling and has a tendency to depress the price of wheat.

In reply would say that presume some people use option trading as a means of gambling, but the general use the miller and the grain man is exactly the reverse, and is used to eliminate the gambling or speculative features of the business and enables the grain merchant and the miller to conduct their business with the least possible element of speculation.

For instance, one of the elevators in the country buys wheat and wishes to take no chances on the market, and wants to do a clean legitimate business, he sells as much option wheat each day as he bought cash wheat. This option wheat he carries until flour sale until such time as he can purchase the cash wheat. He then sells the option and this flour sale is protected, thus eliminating the speculative feature of the transaction, and enabling him to do business on a much less margin of profit were he obliged to stand on the flour sale until he could pick up the cash wheat to cover same. This also eliminates the necessity of the miller from borrowing a larger amount of money to carry this cash wheat, and I can not see where the option market in any way acts as a depressing factor of the market. "Water always seeks its level," so will supply and demand eventually regulate the price of wheat or any other commodity.

Take for instance, wool, leather, cattle, and hogs, and a lot of other articles which are being depressed. There is no option market to depress these articles, but still they go down simply from the fact that there is no demand for the article, consequently they decline. It would seem that Congress should go very slow and investigate this matter thoroughly before acting, as it might prove the reverse to what they are trying to accomplish.

Very sincerely, yours,

TENNANT & HOYT CO.,
Per R. C. TENNANT, *President.*

The CHAIRMAN. Are you through with your testimony?

Mr. HUBBARD. Yes.

The CHAIRMAN. Are there any questions?

Mr. VOIGT. You say you represent the farmers here?

Mr. HUBBARD. Yes, sir.

Mr. VOIGT. Did you state the name of the organization that you appear for?

Mr. HUBBARD. The Farmers' Cooperative Milling Co. is the concern from whom I got my letter. I was asked by the secretary of the Minnesota Bankers' Association to attend this meeting on behalf of the farmers, and on short notice the best I could do was to secure what I have.

Mr. VOIGT. You were requested to appear on behalf of the farmers by a bankers' association?

Mr. HUBBARD. Yes, sir.

Mr. VOIGT. That is rather an unusual representation. Are you a farmer yourself?

Mr. HUBBARD. No. sir; I am a banker. I might say that our bankers' association takes a great deal of interest in our community because of its agricultural features. We depend upon agriculture almost for our existence.

Mr. VOIGT. Well, you can not speak for the farmers of Minnesota except for the farmers who are interested in the organization from whom you received this letter.

Mr. HUBBARD. That is correct. Those same farmers whom I talked with that day are stockholders in the Farmers' Cooperative Creamery and not a farmers' elevator company; those same men are interested in other cooperative enterprises in Minnesota other than this mill, but I had only the time to call on them at this particular meeting.

Mr. VOIGT. Are there any abuses in the system of marketing grain that you know of?

Mr. HUBBARD. Such as I glean from reading. I asked the manager of this mill whether in his opinion there would be a way out of any grievance they might have against this future trading. "Well," he said, "to put a prohibitive tax on the gambling feature of it." I replied, "How are you going to discriminate?" Where does the speculation begin and the gambling cease?"

Mr. VOIGT. He wants to sell and hedge, but he does not care whether the fellow who takes the other end of the hedge is a gambler or buyer or speculator?

Mr. HUBBARD. He is not interested.

The CHAIRMAN. You favor hedging?

Mr. HUBBARD. Yes, sir.

The CHAIRMAN. All seem to be agreed that hedging is proper and should be provided for, but many seem to be opposed to speculation. which, again, leads to the question, can hedging be provided for without a speculator What is your idea about that? In order to unload the risk somebody must assume it, have they not?

Mr. HUBBARD. Somebody has got to assume that.

The CHAIRMAN. Whoever assumes the risks of insurance is a speculator?

Mr. HUBBARD. Yes, sir.

The CHAIRMAN. We are grateful to you. We will now hear Mr. Bayer.

STATEMENT OF MR. M. BAYER, MANAGER SELFRIDGE EQUITY EXCHANGE, SELFRIDGE, N. DAK.

The CHAIRMAN. You may proceed, Mr. Bayer.

Mr. BAYER. Mr. Chairman and gentlemen of the committee, all the experience I have is from country buying of grain in wagonloads for small grain elevators only, that is, direct from the farmer, and I think that by abolishing hedging and not providing for a suitable subsidy it would directly come back onto the farmer by having to ask a higher margin than they are charging now or has been the custom of charging in the country elevators, because we would have not protection whatever.

I can illustrate that this way. This incident occurred last fall. First, when thrashing commenced, the grain came in very fast, and the farmers wanted to sell and did sell. Our house holds 40,000 bushels, and we got grain in there to the extent of 20,000 bushels. We could not get any cars to ship the grain, and they wanted their money for the grain. So we consequently had to protect ourselves in some way to be safe. Therefore, we sold hedges; bought the cash grain and sold hedges against it. Then later on when we got the cars we shipped it, and bought the hedges back again, and in this way kept on the safe side, and we are able to handle the grain on a 6-cent margin, which is allowed by the State of Minnesota under the tentative rule which has been made by the chief of the inspection department of the State of North Dakota, of which Mr. Ladd is the head now.

There is nothing else I can add. I do not know anything of the workings of the exchanges, so far as gambling in exchange is concerned in the hedging market, but I know that it helps us a lot in the country dealing and that we have got to have some insurance like that to be able to handle our business on a small margin.

Mr. VOIGT. You say you are limited to 6 cents in handling grain?

Mr. BAYER. Yes.

Mr. VOIGT. Is that the margin you always figure?

Mr. BAYER. That is what we are limited to by the State rule.

Mr. VOIGT. Yes; but do you always get that margin?

Mr. BAYER. Yes; we have since future markets were opened. Of course during the regulation in price in war time we had to have a bigger margin. We would sometimes buy on as high as 17-cent margin and the freight and cost to Minneapolis office.

Mr. VOIGT. How much grain do you handle in a year's time?

Mr. BAYER. Well, during this last season we handled 118,000 bushels; that is, for 1919–20.

Mr. VOIGT. Are you the only elevator in your town?

Mr. BAYER. Yes; it is a cooperative elevator.

Mr. VOIGT. Oh, it is cooperative?

Mr. BAYER. Yes; 50 farmers are stockholders.

Mr. VOIGT. It does not make any difference what your margin is, then?

Mr. BAYER. It comes right back to the farmers again.

Mr. VOIGT. It comes back to your organization?

Mr. BAYER. Yes.

Mr. VOIGT. Are you aware of any abuses in the system of handling grain that you would like to see corrected?

Mr. BAYER. No; not that I know of.

The CHAIRMAN. The 6 cents a bushel for handling it does not include freight?

Mr. BAYER. Oh, no; that is 6 cents a bushel plus freight and terminal expenses.

The CHAIRMAN. How do you come out at the end of the year in profit or loss?

Mr. BAYER. I do not know of any losses yet. I have been in it for 10 years, and I have known a time when we were buying on a less margin and then making money—coming out ahead, above the expenses.

The CHAIRMAN. What would the actual expense be—6 cents covers losses as well as expense of handling it?

Mr. BAYER. That covers our handling expenses and our risk.

The CHAIRMAN. Can you estimate the cost of handling it outside of the risk?

Mr. BAYER. No; that is the actual cost of running the business; that is the cost of the capital.

The CHAIRMAN. Do you pay interest on your capital?

Mr. BAYER. Oh, yes.

The CHAIRMAN. That is included in the 6 cents?

Mr. BAYER. Yes; and the employees' salaries and all the other running expenses.

The CHAIRMAN. Insurance?

Mr. BAYER. Yes; insurance and interest on foreign capital. We have to have quite a lot of financing for an elevator even of that size. Take, for instance, last fall, when we had to have all the money to buy as much as 25,000 bushels of grain, because there were no facilities to ship the grain as fast as we bought it, and we had to have

some money from some source, which I am positive we could not get if we could not have hedged our grain, or if we were reasonably sure we would not take too big risk.

The CHAIRMAN. Six cents covers interest on money borrowed to carry the wheat?

Mr. BAYER. Yes.

The CHAIRMAN. What is the sentiment of the grain men and the farmers in your section with respect of hedging and speculating in future trading?

Mr. BAYER. In respect to hedging?

The CHAIRMAN. Future trading?

Mr. BAYER. I have had quite a number of talks with several of my customers and stockholders, and the most of them seem to think that we ought to have hedging, but there is a certain amount of gambling that they would like to have cut out. That is their stand and their view.

Mr. VOIGT. They do not want the other fellow to gamble?

The CHAIRMAN. What gambling did you have reference to that should be cut out?

Mr. BAYER. One man put it this way to me: He said, "For instance, Armour is not a farmer and he is not raising grain. Why should he be in the market selling 100,000 or 150,000 bushels of grain?" That is the way one farmer put it to me.

The CHAIRMAN. I understand Armour carries on business similar to what you do, only that he operates on a bigger scale.

Mr. BAYER. Of course, I do not know anything about that.

The CHAIRMAN. He hedges on it?

Mr. BAYER. Since you asked me what the farmers think about it, that is really what one farmer told me.

Mr. VOIGT. Do you transact any other business in this elevator organization besides handling grain?

Mr. BAYER. Yes, we handle flour.

Mr. VOIGT. Anything else?

Mr. BAYER. Coal and salt; that is about all.

The CHAIRMAN. Are you advised as to the number of grades deliverable on the contracts in your hedges?

Mr. BAYER. Future contracts?

The CHAIRMAN. Yes.

Mr. BAYER. No; I never did look that up.

The CHAIRMAN. You spoke about some inspection. What inspection did you have reference to? I believe you said that Mr. Ladd was at the head of it?

Mr. BAYER. Yes.

The CHAIRMAN. Is that the bureau of inspection?

Mr. LADD. That is the State law of North Dakota that was passed two or three years ago, I think.

The CHAIRMAN. You have it inspected in Dakota and also at the terminal?

Mr. BAYER. No, not exactly.

The CHAIRMAN. Is it sold on the Dakota grade?

Mr. BAYER. All buying of grain is regulated by the North Dakota State law governing public inspection; that is, the buying of the country buyers, but not the selling, so far as I know.

The CHAIRMAN. You buy under one inspection and sell under another?

Mr. BAYER. Yes, sir; that is just exactly the position we are placed under.

The CHAIRMAN. How does it work out?

Mr. BAYER. It does not work out very good, although the rules covering the grades are practically the same.

The CHAIRMAN. Unless they were, it would not be workable at all.

Mr. BAYER. No; we have had differences.

The CHAIRMAN. In what respect?

Mr. BAYER. For instance, if a farmer comes in with a load of grain, we have our strict rules that we have to buy under. If he is not satisfied with the grade I give him at the elevator and dockage he can appeal to the State inspection department at Fargo, and we will have to send a representative sample down there and it will be tested there and then sent back. Our business place is 300 miles from Fargo.

The CHAIRMAN. And that is final; that determines it?

Mr. BAYER. It is final when it comes back from Fargo, but when the grain gets down to Minneapolis to our terminal market we might get a different grade on it.

The CHAIRMAN. You have to take what you get at Minneapolis?

Mr. BAYER. Yes; practically.

The CHAIRMAN. The farmer takes what he gets from Fargo?

Mr. BAYER. Yes.

Mr. VOIGT. If you are not satisfied to accept that grain on the first ruling you are not obliged to, are you?

Mr. BAYER. Oh, yes, sir; we are.

Mr. VOIGT. There is nobody who can compel you to buy grain?

Mr. BAYER. No; but then when we have the grain and the State says it is No. 3, and we bought it for No. 4, we will have to take the State's grade, that is all there is to it.

Mr. VOIGT. That is in the case where you have taken the grain before you have settled with the seller?

Mr. BAYER. Yes.

Mr. VOIGT. You said you borrowed some money last fall to carry a large quantity of grain?

Mr. BAYER. Yes.

Mr. VOIGT. Did you borrow that from your members or from the bank?

Mr. BAYER. No; from the commission company to whom we ship at Minneapolis; they furnish us the money.

Mr. VOIGT. What interest did you have to pay on that money?

Mr. BAYER. We have been paying 7 per cent, and it has been 8 per cent, too.

The CHAIRMAN. Are your expenses $7,800 for operating your elevator?

Mr. BAYER. No; I do not think it is—no; I do not think it cost that much—not over $5,000 to run it a year, to do that volume of business.

The CHAIRMAN. Thank you, Mr. Bayer. We will hear Mr. Kroske.

STATEMENT OF MR. J. W. KROSKE, PRASHALL, N. DAK.

Mr. KROSKE. Mr. Chairman and gentlemen, I will give you briefly my opinion of how prohibiting of future dealing in grain will affect me as an independent grain dealer in the country and as a farmer, because I am both.

During the past year we have been able to buy grain on a very small margin, due to the present system of future hedging. We have been able to buy and sell grain immediately, thereby eliminating all chances of loss.

If dealing in futures should be prohibited, and we have nothing else to take its place as good as future trading or better, we would have to buy on terriffically large margins, and this no doubt would cause dissatisfaction among the farmers.

Another point of importance to us is financing the wheat purchased from $1.50 to $3 a bushel, which takes a lot of money. I handle about 300,000 bushels a year at our country elevator. My commission firm is advancing me all the money I have needed to purchase grain with, for the reason that they trust my honesty and from the fact that I hedge my grain at all times and do not speculate.

It would be impossible to get any amount like that from local banks, because no banks in North Dakota are strong enough, and most of them are closed up now. If dealing in futures should be prohibited and we could not hedge grain, or we would have nothing else to take the place of the present system, I think a good many of us would be compelled to close our doors, and this would put the handling of the grain into the hands of a few large concerns who have the means to purchase grain with.

Another point is the storage system. A large number of farmers store their grain in the fall of the year. We have about 80,000 capacity in the two elevators. If our elevators are filled with storage grain, which happens quite often, and we can not ship and hedge our grain, no matter how many empty cars we would have, we would have to stop buying and the grain would be left in the country.

Therefore I think it is of great importance that we have the privilege of hedging our grain.

I think that is about all I have to say, since the subject has been covered pretty thoroughly.

Mr. VOIGT. Does your broker let you have all the money you need to carry that grain?

Mr. KROSKE. Yes, sir; the Brown Grain Co. of Minneapolis is obliged to pay at times as much as $300,000.

Mr. VOIGT. Do they keep any check on you as to the quantity of grain?

Mr. KROSKE. Yes; I send them a daily report of grain purchased, amount shipped, and amount in transit. They know at all times exactly how we stand.

Mr. VOIGT. Do you sell your grain on bids from different concerns or just this one concern?

Mr. KROSKE. For the last three years I have practically dealt entirely with Brown Grain Co. only, but at times we have shipped to others, and they are about all the same.

Mr. VOIGT. What I am trying to get at is, you wire them to sell a certain quantity at a certain price, or do you wire them to sell it at the market?

Mr. KROSKE. No, we can not do that, because we are so far away from market. I am about 560 miles from Minneapolis, and it is the uncertainty of getting cars. If you sell through wires you would have to deliver in 20 days. The only way we can do is to take the grain in and hedge or sell the option. If I purchase 4,000 bushels of cash wheat, I immediately purchase 4,000 March wheat, and when the wheat goes in I would buy back my March hedge.

Mr. VOIGT. When you sell the actual grain you simply ship it to this commission house?

Mr. KROSKE. Yes.

Mr. VOIGT. And they sell it on arrival?

Mr. KROSKE. No, if I purchase 4,000 bushels today, I immediately sell 4,000 bushels of March wheat.

Mr. VOIGT. I understand the hedging operation, but I am trying to find out how you sell the actual grain.

Mr. KROSKE. As I get cars I ship a thousand bushels a day at which time I will sell and buy back my hedge, thereby closing the operation.

Mr. VOIGT. You do not instruct them to sell at any given price?

Mr. KROSKE. No, we do not.

Mr. VOIGT. You ship the grain, and they do the best they can?

Mr. KROSKE. That is it exactly; it is sold by samples, and we get quotations and know what it is.

Mr. VOIGT. Do you have to notify them to buy back your hedge?

Mr. KROSKE. We notify them or instruct them to buy it back.

The CHAIRMAN. The bankers or commission men loan you money to carry the wheat in the elevator?

Mr. KROSKE. Yes, sir.

The CHAIRMAN. You can carry it for an indefinite time?

Mr. KROSKE. Yes; we make settlement once a year.

The CHAIRMAN. They do not advance money on the car sometimes?

Mr. KROSKE. No; we draw on them; we have an open account with them.

The CHAIRMAN. In addition to that, they loan you money to carry the grain in the elevator?

Mr. KROSKE. Yes, sir.

Mr. VOIGT. What rate of interest are you paying on that money?

Mr. KROSKE. We have been paying 8 per cent. We started at 7 per cent in 1916, and have been paying 7 and 8 per cent.

The CHAIRMAN. A grain man has no trouble borrowing the money?

Mr. KROSKE. We have not had, but I guess some firms have.

The CHAIRMAN. Had you discussed this matter with the grain men in your State? What do they think of it?

Mr. KROSKE. I think I am safe in saying that the majority of the grain men, and also farmers, are not in favor of abolishing the hedging system. It narrows down to the same point; they want to do away with speculation.

Mr. VOIGT. Does your grain company take any mortgage or assignments on this grain from you?

Mr. KROSKE. They have the mortgage on the grain in the house, in the elevator, "as its interests may appear."

Mr. VOIGT. Then they are secured on the grain?

Mr. KROSKE. They are secured on the grain "as their interests may appear."

The CHAIRMAN. But they require you to hedge?

Mr. KROSKE. Oh, yes, absolutely.

The CHAIRMAN. Is there any contract as to that, or any agreement?

Mr. KROSKE. I know, but they simply would not do it without hedging.

Mr. VOIGT. Suppose you buy 5,000 bushels a day. How do you wire them to hedge that 5,000 bushels?

Mr. KROSKE. Well, we buy 5,000 May wheat. They can not tell whether it is a hedge or speculation; but they must trust to my honesty.

Mr. VOIGT. They know, of course, what you are doing?

Mr. KROSKE. Yes.

Mr. VOIGT. You wire them ——

Mr. KROSKE (interposing). To buy five May wheat.

The CHAIRMAN. You have an account with them and you do not have to remit or anything of the kind?

Mr. KROSKE. Yes, sir.

The CHAIRMAN. We are very grateful to you. We will now hear Mr. Aydelott.

STATEMENT OF MR. J. C. AYDELOTT, PEKIN, ILL.

Mr. ADYELOTT. I am connected with a grain firm doing business in Pekin. We control 20 country elevators; 12 of these elevators are situated on the Illinois River and the Hennepin Canal. We have two fleets serving these 12 elevators.

During the period of closed navigation, which will average from ten weeks to three months, we have no outlet for this grain, but during that period we have a market to the farmers and accumulate their wheat, corn, and oats, which is moved the following spring at the opening of navigation.

I insist we are compelled to use the hedging market as price insurance, as we call it, because otherwise we would probably have two or three hundred thousand bushels of grain at these points, and have no chance of shipping out until springtime.

As an illustration of our use of hedges, during the month of November or December, during the period of declining prices, some of the farmers along the river in the grange districts, would sell only their corn. The corn would be of a No. 4 or No. 5 grade, and we allowed them the privilege of shelling this corn and delivering it to us, and holding open the price for a period of thirty or forty days, until they could see if there would be any recovery in the market: because of the grade of the corn we were compelled to put it on the market, as it would not keep, so that we protected ourselves on the market fluctuations by a purchase of the option, and gave them the privilege of holding their grain until they wished to dispose of it.

Outside of the hedging, we use the future market very little. We do not solicit the trading by any of our customers, although at times the farmers will use the privilege. As an example, within a week a farmer came to us and sold 2,000 bushels of wheat. He said, "I want to sell this wheat, because my man has time, the

roads are in good shape, and we can get it off, and I am not satisfied with the price however. I wish you would buy me 2,000 bushels of May wheat now," which we did.

The CHAIRMAN. He sold his wheat for cash?

Mr. AYDELOTT. He sold his wheat for cash and is holding his wheat in Chicago, instead of in his own bin.

The CHAIRMAN. He bought it back much less than he got for the cash wheat, did he not?

Mr. AYDELOTT. Oh, yes.

The CHAIRMAN. Provided he gets the same grade or a fair deal on the grades?

Mr. AYDELOTT. Yes, sir.

The CHAIRMAN. You are familiar with the number of grades deliverable on the Chicago and Minneapolis markets?

Mr. AYDELOTT. I think so; yes, sir.

The CHAIRMAN. You do not speculate; you buy it just as a hedge?

Mr. AYDELOTT. We try to. Generally our deals are selling and most of our trades are in corn rather than wheat.

Mr. VOIGT. This farmer that you spoke of was not hedging; he was speculating?

Mr. AYDELOTT. No; he was speculating, but he was speculating whether he held the wheat in the bin or in Chicago.

Mr. VOIGT. He sold you the wheat to get the money?

Mr. AYDELOTT. He sold us the wheat to get his money; yes, sir.

Mr. VOIGT. And in that way he tried speculation to see if he could get a little more for his wheat?

Mr. AYDELOTT. Yes, sir.

Mr. VOIGT. And if he falls down on that, he will get less for his wheat?

Mr. AYDELOTT. Yes, sir; he wished to take advantage of the slack time in moving his grain, when there were good roads and his man was not busy.

The CHAIRMAN. Is that practiced quite generally in your country?

Mr. AYDELOTT. No, sir; it is not.

The CHAIRMAN. We are very grateful to you.

STATEMENT OF MR. F. E. CARLSON, AMBROSE, N. DAK.

Mr. CARLSON. I am very much in the same position as the other country buyers who have spoken. I run a farmers' elevator, and I have no set speech to make. I would just as soon be asked questions.

The CHAIRMAN. What we are looking for is facts, not set speeches.

Mr. CARLSON. I do not have any set speech.

The CHAIRMAN. Your experience and knowledge should enable you to give us some facts.

Mr. CARLSON. I got a letter from the commission firm that has been financing us for the last 10 years, telling us what was coming up in regard to the future hedging and when my board of directors met—the Farmers Cooperative Elevator—I read the letter to them, stating that if the hedging was done away with it would be impossible for them to furnish us the money they had been accustomed to furnish us in the past, and that if the futures should be done away with it would be possible they would have to discontinue business; that it would be too big a risk and they could not take the risk.

Well, the directors did not take any particular action. They did not seem to give this a great deal of thought at the time. I probably read the letter a little hurriedly, and they did not seem to consider it a great deal.

So, the more I thought about it, the more I felt we should do something, because if the commission firm would not finance us it would be impossible for us to do business, and as we had to have money, because we had to have money, as our means are limited. I therefore took it up with the secretary of the company and another farmer there, and we talked it over, and they decided the best thing that could be done was that I come down here; and they were in favor of the hedging, because it would be impossible for us to do business without it.

Mr. VOIGT. You borrow money from your commission firm?

Mr. CARLSON. Yes, sir.

Mr. VOIGT. Do you get all the money you need?

Mr. CARLSON. Yes, sir.

Mr. VOIGT. Do they ever suggest to you that you better sell grain in order to reduce the loan?

Mr. CARLSON. Well, they have not, not particularly. Of course, it is the understanding that we should ship the grain out just as fast as we can get the cars to ship it in. Of course, there have been times that we have owed them up to $80,000, and they have realized and known that there was a scarcity of cars, and that we were not able to get the grain out, and, of course, the understanding was that we would ship it out just as soon as we could get cars to load it in. Of course, that has really been the understanding that we would load it out just as fast as we could get cars. They were perfectly willing to carry us as long as we kept our grain hedged.

Mr. VOIGT. Does this commission house take a mortgage on your grain?

Mr. CARLSON. No, sir; they have not yet; they have never asked for anything of that kind.

Mr. VOIGT. Have they asked any of your members to sign a guaranty?

Mr. CARLSON. No, sir. Of course, that is the custom among the grain commission firms—to have the directors sign up; but in our case we have always made money and have always had a pretty fair surplus, and the commission firm has known that and they have felt quite safe in carrying us without any accounting.

Mr. VOIGT. When you ship your grain do you give any instruction at all as to when or how it shall be sold?

Mr. CARLSON. Yes, we do. At times when we are not short of cars we sell to arrive, and then, of course, during the last couple of years cars have been so uncertain that we have got in the habit of selling the future and then buying that back when the cash grain is sold on the market.

Mr. VOIGT. When you have cars so that you can load your grain right out, do you then use the hedge?

Mr. CARLSON. No, we do not; that is, we would not if we were sure of having cars, but that is something we could not be sure of, because we might have cars and all at once the cars will be cut out, and so we use the hedge.

Mr. VOIGT. In past years, you have had cars in the grain moving season, have you not?

Mr. CARLSON. No; we have not. Cars have been very hard to get. This season is the first season for the last two or three years that we have had cars, and we have not had much grain as yet and cars have been a little more plentiful than they have been heretofore.

Mr. VOIGT. There are times when you can ship your grain out as fast as you can get it in and take it?

Mr. CARLSON. No, it is not. Usually in the fall of the year we fill up. We have two elevators, and if we have any crop we are usually filled up.

Mr. VOIGT. Yes; but I say there are times of the year when you can ship just as fast as you receive it?

Mr. CARLSON. Oh, yes.

Mr. VOIGT. In that case, do you hedge?

Mr. CARLSON. Yes, we do; because we feel—we have got in the habit of hedging, and we just keep on. It is easier to keep track of it. If you used to arrive and hedges both, it is a little more confusing to handle it. If you are selling futures entirely, it makes it a little easier to keep track of.

Mr. VOIGT. You said a few minutes ago that sometimes you do not hedge.

Mr. CARLSON. That was probably four or five years back, when we used to sell to arrive. But we have not, since cars got scarce and we got in the habit of using hedges.

Mr. VOIGT. Do you get bids from the commission houses every day?

Mr. CARLSON. No, sir.

Mr. VOIGT. Then you trust entirely to the commission firm that you do business with?

Mr. CARLSON. Yes, sir.

Mr. VOIGT. And when your grain leaves your station you do not know what you are going to get for it?

Mr. CARLSON. No, sir.

Mr. VOIGT. That is left to the judgment of the people you deal with?

Mr. CARLSON. Well, of course, it, I suppose, is the custom or it is the cash grain which is so much over the future and we have to take a chance on that. It is just in there and if it is 5 or 6 cents over the option or 8 or 9 cents, that is speculation to a certain extent, but we have to stand it, as we do not know what that is.

The CHAIRMAN. Whenever you can get cars you sell to arrive; that is the practice?

Mr. CARLSON. Yes, when we are sure of getting cars.

The CHAIRMAN. If you had some assurance of getting cars, you would abandon the futures and sell to arrive?

Mr. CARLSON. We could.

The CHAIRMAN. It would be the most preferable and most profitable?

Mr. CARLSON. Well, I would prefer the sales to arrive if we were sure of getting cars.

The CHAIRMAN. Some one testified that the bids to arrive were much below the actual market cash price, and that would be operating to a disadvantage of about five cents.

Mr. CARLSON. That is probably true now; that is the latest—well, during this last six months or a year. But it used to be that it really did not make any difference. If you go back five or six years, the cash and the to arrive was just about the same; and then in 1915 we had particularly good wheat, and then we got a premium on it and it did help us some to use future and sell on track, as we call it.

The CHAIRMAN. I take it that you are not concerned about the grades deliverable on contract. If you have any knowledge as to that we would like to have it.

Mr. CARLSON. As I understand them, they really do not want anything only No. 1. That is all you sell. So if you wire in and whatever it might be, whatever it is, you sell to arrive or whatever it is, and you wire in and sell a thousand bushels. If we don't specify No. 1 northern spring, but that is always understood. So when we make a sale to arrive, and it gets in there, grade No. 2, it takes certain reduction, what is called "discount" in the grade.

The CHAIRMAN. On what you sell for future delivery, what is called an option for future?

Mr. CARLSON. No, that would not have anything to do with that. We would sell the option, and then the wheat would ride in, and it would sell whatever it was graded.

The CHAIRMAN. What I am getting at is, if you sell a thousand bushels on a delivery, would you be required then to deliver No. 1 on that contract?

Mr. CARLSON. No, we would just sell the future, and then probably within a month or so or less time than that, possibly two weeks, we would load up a car of wheat and it would be sold on arrival.

The CHAIRMAN. On the cash market?

Mr. CARLSON. Yes. The cash would be bought back.

The CHAIRMAN. You would never sell or buy with the expectation of delivering or receiving on that contract?

Mr. CARLSON. No.

The CHAIRMAN. Thank you very much. The committee will now adjourn to meet to-morrow morning at 9.30 o'clock.

(Thereupon, at 6.05 o'clock, p. m., the committee adjourned to meet to-morrow, Saturday, January 15, 1921, at 9.30 o'clock, a. m.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Saturday, January 15, 1921.

The committee met at 9.30 o'clock a. m., pursuant to adjournment on yesterday, Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. We will be glad to hear from Mr. Hargis this morning.

STATEMENT OF MR. B. L. HARGIS, PRESIDENT OF THE KANSAS CITY BOARD OF TRADE, KANSAS CITY, MO.

Mr. HARGIS. Mr. Chairman and gentlemen of the committee, in order to conserve time, I shall with your permission read a preliminary statement and then will attempt to answer any questions which you desire to ask me. I shall be as brief as possible in presenting this matter, but in order that there may be a perfectly clear understanding of our functions as we see them, it seems advisable to give you a very brief history of our organization and the development of the specialized grain business as conducted by boards of trade.

The Board of Trade of Kansas City, Mo., sets forth as its objects the promotion of uniformity in the customs and usages of merchants, the inculcation of principles of justice and equity in business, the facilitation of speedy adjustment of business disputes, the inspiration of confidence in business methods and the integrity of the parties thereto, the collection and dissemination of valuable commercial and economic information, and, generally, to secure to its members the benefits of cooperation in the furtherance of their legitimate pursuits.

Some 50 years ago the first board of trade was organized in Chicago, and at that time the requirement for it was to give a better distribution of grain and grain products and wider information as to grain values than could be had under the old trading methods.

In its primitive stages, as you know, the marketing was done from the farms at country points on court day, and at almost every crossroad, or on each country stream where there was water power a gristmill could be found. These mills supplied the people in their immediate vicinity, but provided no large grinding capacity, and necessarily no wide distribution of product. Later, as transportation developed and transcontinental lines were built, storehouses called elevators were constructed at various points along the granger lines. This enabled the producer to market his grain more freely, and eliminated the necessity of bringing it to the country town or mill just as he needed his supplies, or when his neighbors needed supplies.

Country elevators being constructed at various points along the rail lines then had to find an outlet for their stocks. The result was

that men with broad vision sought out desirable locations with regard to transportation, both inbound and outbound, looking toward the accumulation of surplus supplies of grain during the seasonal rush. Later, when the movement of grain had passed its crest, the problem then became one of distribution, and the terminal elevator operator had a store of supplies on hand which could be distributed by rail or boat to those portions of the country or the world which did not have sufficient local production to meet their requirements. Transportation then developed to a further degree, and production, with the increasing population, also increased very rapidly, so that in all the principal grain districts of the United States there is produced each season an amount of wheat and other grains, usually with favorable conditions, greatly in excess of their requirements. The United States, as you know, supplies anywhere from 150,000,000 to 400,000,000 bushels of cereals to countries other than our own. American requirements for consumption and seed are, under normal usages, about 600,000,000 bushels of wheat.

Many producers do not desire to hold their crop, preferring to merchandise it early, so that they may return to fall work and meet such obligations as they have acquired during the growing season. This gives an extraordinary movement of wheat and other grains immediately after the respective harvests, and such grain must find a lodging place somewhere.

The boards of trade afford the great marketing points for these seasonal surplus movements of grain, and the carriers, in recognition of the desirability of placing grain at points where, when assembled, it may be properly taken care of, and when the period of distribution comes it may be moved with a minimum of delay, have at many terminal markets throughout the United States constructed large grain elevators. You understand, gentlemen of the committee, that these elevators are, in some instances, owned by the railroads and leased to farms.

The CHAIRMAN. In the case of the terminal elevators?

Mr. HARGIS. Yes, sir.

The CHAIRMAN. You may continue your statement.

Mr. HARGIS. These vary in capacity from a few hundred thousand to thirteen million bushels. There is one leased or owned by Armour, of about 13,000,000 bushels capacity, at Hedgewisch, Ill.

Storage room for grain is usually concentrated at points where there is a great network of rail lines, and coincidentally with the development of transportation, has come the development of the terminal grain market. In order that the public may at all times have easy access to the records as to price, the world requirements, transportation information, and the widest possible publicity of news indicating the actual value of grain crops, the dealers at these terminal points have organized associations, which are generally termed boards of trade.

As the exchange, or board of trade, was developed from necessity, so has the grain business developed into a highly specialized industry. In other words, it is a very rare thing now that one firm attempts to do every variety of business connected with the handling of grain. I might interpolate that I refer only to members of exchanges in these divisions I name.

The principal divisions are: (1) Commission merchants (known as receivers); (2) elevator operators; (3) exporters; (4) independent shippers; (5) coarse grain specialists, and (6) pit operators.

First, the function of the commission merchant is through various channels, usually by traveling representatives and a wide correspondence to come in close contact with the country grain shipper. His business is to receive from the country operator such shipments as he desires to forward to terminal markets to be sold on arrival, which, in common parlance, is a consignment, meaning that no preliminary contract of sale is made until the grain has reached the terminal market, been duly graded by an authorized inspector, and offered for sale by type sample on the trading floor of the exchange to which the commission merchant belongs. There is competition among the buyers for the offerings of commission merchants, and each receiver, of course, uses his greatest energy to obtain the highest possible price to deliver to the shipper the earliest possible returns, and by superior service to so cement the trade relations between the country shipper and himself as to establish a permanent relationship that should be mutually profitable.

The charge for handling consignments varies slightly in different markets; but is in each market identically the same for all members of any specific exchange or board of trade handling grain for nonmembers. On the Kansas City Board of Trade the receiving commission on wheat is 1 per cent of the gross sale price, with a minimum of 1½ cents per bushel; the shipping commission 1 per cent of the cost price, with a maximum of 1½ cents per bushel and a minimum of 1 cent per bushel. On coarse grains the charges are somewhat lower than on wheat.

The receiver or commission merchant, in taking charge of a shipment for a country grain dealer or farmer, usually makes an advance in cash against each car received, the shipper accompanying his advance notice with a statement of weights and the grade the car should carry. By advancing cash against the shipment, on delivery of shippers' bill of lading the commission merchant then becomes in reality the financial agent of the shipper, in that until such time as the grain is permanently disposed of he has in fact his funds invested in the car. This relieves the strain on the country grain dealer and on the country bank.

Second, the elevator operator is one who either leases or owns a warehouse for grain at a central grain market, and his function in the trade is to receive and care for the grain which is brought to his point. There are a number of these elevator operators at each of the principal markets, and the competition between them for supplies, based on domestic and world's requirements, enables the shipper to secure the benefits of competitive bidding for his goods.

The elevator operators, through their agents, are on the trading floor continually during the trading season, and if they have storage room and no orders for grain to ship out, they still are frequently in the market to fill their elevators to capacity so as to have a stock on hand to meet the demand which will inevitably come within a very few days.

The turnover in grain is rapidly accomplished, and it is by this reason that such large amounts can be handled by single firms when the receipts are greatly in excess of the forwarding requirements.

Under ordinary processes in the grain business the elevator operator buys his grain and immediately sells a future against it; that is, hedges his supply. This is a very necessary operation, inasmuch as the bankers lending large amounts to these dealers must be guaranteed against loss, and in hedging the profit is reduced, but the insurance against loss is also acquired. Hence grain can be turned over through these houses on a much narrower margin of profit than in other commercial lines. I might state that on yesterday I heard a question brought up in this committee as to whether hedging affords insurance. It does afford an insurance, but of course not an absolute insurance But it is as nearly perfect as it could be made and reduces the hazard to a minimum. It is as good a protection as the 90 per cent co-insurance you have to take out, and such as that.

It also occurs that terminal elevator room may be obtained at times by outsiders and by other members of the board of trade, at a certain rate per day or per month, thus affording people who are not directly in the elevator business an opportunity to secure room and store supplies for themselves or their clients when marketing conditions are such as to make this desirable. Right there let me say that the farmer could have his grain sent in and have it stored if he wanted to do it the same as I can. The elevators this year would have been particularly glad to receive it. I am not in the elevator business, but I do know that to be a fact.

Third, one of the most highly developed, difficult, and necessary branches of the grain trade is known as exporting. Exporters exist in a more limited number and handle grain in greater volume than any other single branch of the trade. This is because of the fact that there are many elements of risk, large capital is required, big expense accounts are necessary to maintain offices and bureaus, both at home and abroad, for the transaction of business and for the collection of information as to world values.

This season export contracts are being made in a great many countries through buying commissions of the respective countries importing wheat, and with a concentrated foreign buying American prices are subject, in a measure, to the disposition of an importer. In other words, it would be possible for several foreign countries to have their business transacted through their commissions by agreement, wherein there might be a concerted withdrawal from the market, causing a radical reduction in price. We think this has had something to do with rapid changes in wheat prices which have occurred this crop year.

The very many factors which have operated to reduce so radically the price of wheat will be touched upon later on in this discussion, and we believe that it can be shown that the depreciation in value has been due largely to natural causes. Unquestionably it is true that the profits taken out by the country grain dealer and the exporter have been larger than usual—that is, the gross allowances—but there is probably some excuse for this on account of the unusual hazards which have attended buying from the producer and forwarding to the European American grain and its products under the adverse financial conditions with which we are all familiar.

As a matter of fact, when futures trading in wheat was reopened. it was clearly understood by everybody connected with the grain trade that it would be a physical impossibility to take machinery which had been in disuse for more than three years and make it

immediately and effectively operative with its prewar degree of safety. It has taken more than 40 years of constant operation and improvement to bring grain trading through exchanges to the point of conservatism and accuracy which marked its prewar operation, and during those years full information was had from time to time through various sources, as to foreign requirements, production in surplus countries, conditions in our own country, and, in fact, every possible light and sidelight that might give the premise from which supply and demand values could be accurately figured. It must not be forgotten that the reopening of trading was undertaken with the thought that it was a public duty and with the knowledge that the motives would be wholly misunderstood, and it was known to the best men in the grain trade that regardless of whether the market advanced rapidly or declined rapidly censure and criticism would be likely to follow in any event.

This was very fully talked over in the conference that Mr. Barnes called for Chicago, on May 7 I think it was. We realized that this was a necessity. There was a call for it from every branch of the trade, including the bakers and the farmers' elevators, the latter being also represented. And in spite of the fact that we knew this criticism was coming we felt that we had a public duty to perform.

In spite of these facts, and with absolutely no selfish motives actuating those of us who consulted with Barnes and attended the conference called by him prior to the release of control, it was felt that a beginning must be had at sometime and in some way. July 15 was finally selected as the date for reopening exchange trading in wheat futures, and we then proceeded in the best way possible to serve what we believed the interests of the American public. July 15 was chosen because of the fact it was believed by bankers and people generally in the grain business that the crop could not be safely handled without a hedging market and trading. And trading was not reopened earlier than July 15 for the reason that we felt we must have some idea of the winter crop and have the actual wheat on hand before any future trading was indulged in.

It seems to us that large export contracts can be made and our surplus grain forwarded to importing countries only with a hedging market. The exporter is placed under the necessity at all times of having his grain at the seaboard prior to the first day the charter boat may call (but it is quite possible and frequently occurs that the delay in ocean shipping is such the call is delayed), and the exporter is carrying the grain. Our recent very poor transportation system made it impossible for him to move his purchases to Atlantic and Gulf ports with anything like the usual expedition, and the turnover has run for from 30 to 60 days, which is an unusually long period.

There are several varieties of exporters, some chartering boats and and selling their goods c. i. f., which means cost, insurance, and freight delivered at a foreign port. Another branch of the export trade is known as "fobbers," and these merchants accumulate the grain at the Gulf or Atlantic, have it put in condition for shipping, and place it on the boat for some foreign firm or government.

Throughout the country, both at terminal markets and interior points, there are those who make a specialty of selling grain delivered ports of exit. They usually sell their holdings to a "fobber," who assembles the cars and prepares it for boat loading.

It is very difficult to state what is the margin of profit in the export business now, but an item of very great hazard is the wide fluctuation in foreign exchange, which has been known to vary to an extent that would mean a loss of 6 to 8 cents in a single day.

Fourth, the independent shipper is that member of the exchange who has no elevator of his own and may at times not even require the use of an elevator in his shipping business. He receives orders from mills and frequently from members of the grain trade at country points, as well as at other terminal markets, to purchase a certain amount of grain in his market and forward it to his client. This is done sometimes at the outbound commission charge and at other times at a flat sale price. He will contract to furnish a mill its requirements and takes his chance on securing the grain on the trading floor of his exchange, or by bids to the country, at a price which will enable him to consummate the transaction at a profit to himself and to the satisfaction of his principal. Usually he buys futures against his sales and disposes of the futures as he accumulates the grain sold. This affords a further competition, in that the offerings arriving at the terminal market are then subject, not only to the demand of the elevator operator, but also to the competition of an independent shipper, and with such a broad interest open, with the receiver attempting at all times to get the highest possible price for his consignments, and every variety of buyer attempting to make purchases to fill his contracts, such competitive trading results in practically a guaranty that every car of grain will sell at its intrinsic value.

Both elevator operator and independent shipper receive orders from mills for certain special varieties of wheat, and it is very necessary that the greatest discretion be used at all times to secure for the client the quality which he orders.

The science of grain buying has been so highly developed that protein and gluten tests are being made through chemical laboratories by mills, warehousemen, and independent shippers, because of the fact that the miller not only wants to know the color of flour he will produce, but must be guaranteed this in a way by a foreknowledge of the gluten content of the grain he will grind. Buying indiscriminately in the country would not afford such an opportunity, hence it is usual for millers to come to the terminal markets for their supplies. It is true, however, that certain portions of each State grow varieties of wheat which, once the crop is harvested, fairly well establishes the chemical make-up of the product for that entire vicinity.

Fifth, it has been found at the terminal markets that it is almost impossible for a grain merchant to become expert in the handling of both coarse grains and small grains (the former, such as oats, corn, kaffir, and the latter, wheat, rye, etc.); therefore we have our wheat specialists and our coarse grain or corn and oats specialists. The latter watch carefully the areas of surplus production and look to the territory of future requirements for feeding or manufacturing uses. They operate as the intermediate agent, bringing in contact the surplus territory with the territory of underproduction. Like the wheat trade, the coarse grain trade is specialized in the same degree, with receiving commission merchants, elevator operators, independent shippers, the latter receiving his orders for specific qualities of corn or oats for certain specified uses.

Right at this point the question has been brought to the attention of this exchange of establishing a grade of red oats which may be delivered on contract, whereas at the present time only white oats are deliverable. That request was made of us by several Oklahoma grain exchanges, where they had very large crops of red and mixed oats.

This has not met with favor for the reason that the experiment was tried years ago in this exchange of having dual deliveries in wheat as well as in oats. When both hard wheat and soft wheat were deliverable, the trading by mills where acceptance of delivery was ultimately taken was reduced to a minimum, because of the fact that a hard wheat miller could not use soft wheat, and conversely, a soft wheat miller hard wheat. I might state that our market is dissimilar to that of any other in the country because it is the gateway to the Kansas wheat crop. It is the hard wheat market of the United States, and hence has that variety in the deliverable grades.

In the same way cereal oat users, except for feeding purposes, require white oats, and there was nobody hedging, trading in oats here, when red and mixed oats were deliverable at a penalty. I mention this here merely to indicate how representative of actual requirements grain futures are. This season, with the great production of red and mixed oats, it would be very beneficial to the surplus territory in our vicinity to have red and mixed oats deliverable, but as a matter of fact in the long run it would probably operate, not to the benefit, but to the detriment of the greater number of people served by the market.

Sixth, that function of the board of trade which is least understood, most maligned, and possibly most beneficial is futures trading. Through this agency the actual world's value of grain is under normal conditions reflected from day to day, with such precision as will afford every man and woman in the United States an opportunity to observe the basic values of grains at terminal points. A criticism which has frequently been made is that the trading in futures is by many times larger than the receipts of cash grain at the point where trading is done. This does not necessarily reflect in any way the amount of cash grain which was traded on at a given point. In other words, the Kansas City receipts of wheat may be 200 cars in one day, but probably the volume of grain contracts handled under hedge by millers, elevator operators, independent shippers, country grain dealers, and even the producer himself would show a multiplication many times over of the actual cars reaching a given market.

We will assume that one of the large Kansas flour milling corporations is taking in at its various elevators quantities of wheat far in excess of its flour demand at that time. For their safety and for the purpose of securing loans at the lowest possible rate, as well as reducing cost to the consumer and reflecting a fair price to the producer, they base their purchases on futures at Kansas City, Chicago, or elsewhere, and hedge their holdings by sales for deferred delivery. In such an operation they require the services of a pit commission merchant at the terminal market, and on their order he sells for them such quantity as they instruct. If for some cause the receipt at the mills, deliveries, drop off and his flour demand increases, he then buys in his hedge to such an extent as to protect him on the flour he has sold.

If wheat has advanced, he is not the gainer; and if it has declined, neither is he the loser. When he made his original purchases in the country he bought at a certain discount under the price at which he hedged, or possibly even at a premium over the future which he sold; but he made his purchases with the expectancy that his manufactured product could be put out on a basis of moderate profit.

Another form of trader in the pit is the broker, one who acts for a member of his own exchange and charges a brokerage rate of $1.50 for each 5,000 bushels, which he trades in and has put down to a member firm.

A third variety is the "spreader"; that is, the trader who believes that one market shows either too great a premium or too great a discount on its futures, as related to values in some other market; and the spreader will buy at the point of discount and sell at the point of premium, grain sometimes for the identical delivery or possible for delivery in one month, at one point and during another month at another point. The spreader is a stabilizer of values and his operations afford a basis of trade which adds broadness to the speculative market, and gives every hedger an opportunity to place his hedges without improperly changing price values, and to take in his hedges when the time becomes opportune without affecting the market to any extent.

Another element recognized in every market is the so-called speculator. He is a man who trades in grain for future deliveries because of the fact that he believes the price is either too high or too low. At times speculation is indulged in to an extent which does affect price values more than is desirable, but these instances are rare, and few of these attempts in the last 50 years have been successful. In other words, the law of supply and demand is the one which finally fixes prices. A dislocated transportation system and the difficulty attending the movement of grain in a normal way, at its normal moving period, has subjected the market to violent fluctuations in price, which are in some cases attributed to speculators, but which in fact really reflect the supply and demand.

Since the boards of trade have resumed trading in wheat futures the variations in price have been considerable, but this has been due to conditions beyond the control of anyone.

The charges for handling grain futures for nonmembers are $7.50 on each 5,000 bushel lot, which, when it is understood that telegrams are paid, and the overhead cost of operation of a firm is maintained certainly is a very low figure.

It is my opinion that when the world approaches normalcy that the fluctuations in price will be much less than have recently existed. Speculation affords a cushioning influence and the speculator and the spreader are really the men who carry the grain crops of the United States. The efforts of the officers of every properly organized exchange are always used to so order the affairs of their exchange that improper fluctuations and questionable use of futures shall be eliminated and at least controlled.

Mr. Julius H. Barnes, the wheat director of the United States, in a conference held in Chicago on May 7, made this very illuminating statement concerning his idea of the function and fairness of grain exchanges:

These great control markets, with their hedging facilities for future delivery, assured to handling and manufacturing facilities a minimum of loss by changes in the general price level of the world, and indicated in their various relations a national price level. Grain flowed from producer to consumer in natural channels, not always actually through these central markets, but on the national price level indicated by these markets. It is the most shallow analysis which compares the volume of future trading on these exchanges with the volume of actual receipts at those particular markets.

But those markets were protected against abuse of their facilities by speculation and manipulation because of the ever present potential delivery of the grain represented in its hedges. If, then, inadequate transportation prevents the diversion of grain from its normal channels to make the actual delivery of grain so hedged in those central markets, then the underlying security of exchange trading and its justification are both undermined.

It is an additional problem, that at the very time when actual delivery of the potential grain hedged in those markets is most difficult, there is concentrated in Government hands abroad the power of purchase of large quantities, for which purchases, with the least price disturbance and in the most available quantities, the exchange facilitates themselves offer the most ready market.

It is not to be wondered at, then, that the exchanges themselves must view these questions with great care. They must recognize their great service to producer and consumer in the stability and security which their hedging facilities furnish, and which are directly reflected to both farm and fireside by narrower trade tolls because of reduced and eliminated hazards.

Then, too, the grain handling and manufacturing trades of this country have found credit most easily secured because of the security afforded by these hedging markets.

This has reflected in a relatively light capital investment, which makes competition plentiful; and competition, with free and equal opportunity, is the safeguard of both the producer, seller and the consumer-buyer.

This is illustrated most directly in an analysis of the Department of Commerce 1914 Census of Manufacturers.

Flour mills produced $2.30 value of each product for each $1 of capital investment.

Bakery products, $1.81 of product for each $1 of capital investment.

Textiles, only $1.21 for each $1 of capital investment.

Iron and steel, only 75 cents for each $1 of capital investment.

Probably the grain handling facilities, analyzed by themselves, would show that they handled at least $5 of product for each $1 of capital investment.

If, then, by reducing the security to banks, it becomes more difficult to obtain on credit the large sums needed to market our grain crops and their products, the result must speedily show in enlarged trade and manufacturing tolls.

We are frank to admit that unquestionably occasional abuses exist, but these are in such small percentage, as compared to the very high percentage of service and aid furnished by exchanges for the economical merchandising of grain and its products, as to make it a very doubtful policy to upset the whole machinery in order to cure some incidental and usually local condition that might need correction. It seems to us that to destroy the machinery of the grain exchanges because of such things, would be equally as inconsistent as to forbid the manufacture of firearms because on occasion, the latter may be used by some unworthy individual as a means of harm or destruction.

It is very interesting to note the opinion of Mr. Justice Hughes regarding speculation. It is as follows:

Speculation consists in forecasting changes in value and buying and selling to take advantage of them. * * *

Mr. Justice Holmes says of speculation:

In a modern market contracts are not confined to sales for immediate delivery. People will endeavor to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding catastrophies, qualizing prices, and providing for periods of want. It is true that the success of the strong induces imitation by the weak, and that incompetent persons bring themselves to ruin by undertaking to speculate in their turn. But legislatures and courts

generally have recognized that the natural evolutions of a complex society are to be touched only with a very cautious hand, and that such coarse attempts at a remedy for the waste incident to every social function as a simple prohibition and laws to stop its being are harmful and vain.

If it is admitted that exchanges are of value, and it is admitted that hedging is a proper process, then ultimately it must be admitted that speculative trading is a primary necessity of the operation, especially of hedging, and secondarily of exchange trading. It must be obvious that when the surplus movement of wheat is on, and the supplies coming to market are far in excess of the shipping requirements, some one must finance and store the grain.

Only those of practically unlimited capital could undertake this without hedging facilities. The only purchasers without speculative trading would be those actually requiring wheat and nobody requires all of the wheat when there is a supply far in excess of any immediate or known outlet. The net result would be that early in the crop year practically all attempts to hedge grain would be on the selling side. I have never been able to find anyone who could point out to me a prospective purchaser, or the purchaser who would be on hand at that time, unless values were depressed to a point sufficiently low to insure him against any possibility of loss and make him very certain of a handsome return for undertaking the risk. The converse of this is at the end of the crop year, when supplies were scarce, and supposing that some process of hedging had gone on so that the man owning the wheat had the commodity in the elevator, and the future sold against it, could not find opportunity to sell that wheat to a mill in April, because every other holder of wheat would be attempting to buy in his hedge and release his cash wheat to mills or foreigners, but there would be no sellers from whom he could buy in his hedge unless there were speculative trading. That is an immutable law, I believe.

It is our opinion that Congress has squarely to meet the proposition of whether or not there is benefit in hedging, and if there be benefit in hedging and efficiency in grain exchanges, it then has to meet the proposition of whether it is possible to conduct hedging and conduct exchange trading without speculative trading. We are very certain that limitation of quantity trading, restrictions and legislation against speculative transactions would result in reducing grain handling to a very few hands. If the theory is sound that competition is the life of business and for the best interests of the American people, then it must be true that to enact such legislation as will make it possible only for such men as are great captains of industry, such as the Armour interests, the Rockefeller interests, the steel interests, etc., to borrow sufficient money to carry on the assembling and distribution of grain, the problem challenges the most careful study and restrictions should be adopted only after every other possible means of betterment has been tried out.

It seems to us that certain of our southwestern millers (and while the communication to your honorable committee comes as a resolution from the Southwestern Millers League, still it represents only a certain coterie of millers) are actuated by not altogether altruistic motives in desiring futures trading dispensed with. I refer more particularly to the communication from Mr. L. E. Moses, of the Kansas Flour Mills Co.

We believe a witness before you testified that a certain Kansas milling concern which has a daily capacity of something like 10,000 barrels, a capital of from seven to seven and a half million dollars, and country grain stations at about 200 different points, preferred to have exchange futures trading stopped. It was set forth that an unnecessary toll was exacted and that we are an impediment to them. In spite of the difficulties under which they have had to work, they have within 20 years, built these huge mills, earned this large capital, and accumulated a wealth of large proportions, under conditions they state are harmful to them.

Mr. TINCHER. I know that you do not want to be unfair to this milling concern?

Mr. HARGIS. No, sir.

Mr. TINCHER. As a matter of fact the Kansas Flour Mills Co. is a corporation made up of a number of mills?

Mr. HARGIS. Yes, sir.

Mr. TINCHER. They have not existed for anything like 20 years, but it is an organization which represents the survival of the fittest of the mills of that section, organized some six or seven years, isn't it?

Mr. HARGIS. It is only an opinion, but it is my opinion that the capital of the concern was largely earned in the last four years.

Mr. TINCHER. I would have to differ with you on that. I know Mr. Moses, and the Huffman boys, and Jack Hupp, and the miller at Kingman, what was his name?

Mr. HARGIS. Tom Holderdy.

Mr. TINCHER. Yes. They were men of real affairs when they formed this corporation?

Mr. HARGIS. Yes; that is right.

Mr. TINCHER. They were men who had made a success of the business in a private way, perhaps out of 10 times that number of men that had tried to make a success.

Mr. HARGIS. I have no desire to be critical. But these mills were of good size when the Kansas Flour Mills Co. was organized. It was the bringing under one head of seven or nine good-sized Kansas mills. But if Mr. Moses in his letter reflects the opinion of all his partners, regardless of the way the Kansas Flour Mills Co. is made up, of these various men, still its capital has been made, instead of out of speculative trading, out of the milling business.

Mr. TINCHER. That is true, to some extent, but I know men in Wichita and other places whose money has been made out of stock in the Kansas mills. They are the possessors of good fortunes that are vested in the capital stock of the Kansas flour mills, and are men who have not been in the milling business at all.

Mr. HARGIS. That resolution, I happen to know, was prepared beforehand and sprung on the executive committee without any prior notice. This information came to me from Mr. Sterling, the editor of the Northwestern Miller. The vote was 34 to 6 against and 4 did not vote because it was sprung on them unexpectedly and they did not know how they wanted to vote.

Mr. TINCHER. The Kansas City Exchange and the Wichita Exchange came very nearly by practically a unanimous vote going on record against this speculative trading, didn't they?

Mr. HARGIS. Not the Kansas City Board of Trade.

Mr. TINCHER. And it was said that they would be discriminated against by the Chicago Board of Trade and would ruin them if they persisted in doing it, in taking the stand, isn't that a fact?

Mr. HARGIS. I want to say that that is not a fact so far as the Kansas City Board of Trade is concerned. I have been a member there a good many years, and have been an official of the board of trade for three years. And I want to go further and say that neither was there ever any agitation in the history of the board of trade as to doing away with future trading.

Mr. TINCHER. I know a man who is a member of both exchanges and who claims to have called the attention of the board of trade—and I do not claim that the Chicago Board of Trade notified them that they must stand for hedging, but this man claims that their attention was called to it just as they were about to go on record in favor of the Capper-Tincher bill, to the fact that the Chicago Board of Trade would chop their heads off and they better go easy.

Mr. HARGIS. The gentleman is misinformed. There was never even a suggestion of such a thing. It has never been agitated in any manner. That I know absolutely, and last year I was first vice president and this year I am president, and I would have known if anything of that kind had been going on, as a matter of course.

The CHAIRMAN. What is there in the contention that hedging is more for the benefit of the small miller than for the large one; to the one with limited capital rather than to the one who has a larger capital?

Mr. HARGIS. An industry with a very large capital would be in a better position to accept loss and risks, and the larger the capital naturally the larger the borrowing capacity. The small institution would have to have a very considerable margin in the value of its grain if it were attempting to borrow at a bank. But so far as the general benefit in the result of the market is concerned, I think it is equally to the benefit of both the big and small.

The CHAIRMAN. One of large capital and unlimited credit could buy on a low market and take his chance of a rise or fall, while one with small capital and with a limited credit would be unable to do it, is that the case?

Mr. HARGIS. He would not be able to buy any considerable amount. He would not be able to buy his requirements and stand on them; no.

The CHAIRMAN. Do you not take advantage of a low market in a case of that kind?

Mr. HARGIS. He could not unless he is able to hedge.

The CHAIRMAN. If he had the capital and the credit he could buy any amount in reason, could he not?

Mr. HARGIS. That is the trouble; yes, sir, he could.

The CHAIRMAN. While the one without much capital or credit could not do it?

Mr. HARGIS. He could buy very little.

The CHAIRMAN. But he could do it with the hedging privilege?

Mr. HARGIS. Absolutely so. Here is the value of the hedge, if a man's——

The CHAIRMAN (interposing). I want to know if that point is well taken?

Mr. HARGIS. I think you are absolutely sound in that proposition.

The CHAIRMAN. In the case of the milling concern you referred to, is that one of large capital?

Mr. HARGIS. It has a capital of $7,000,000, and I would call that large capital.

The CHAIRMAN. That firm buys direct?

Mr. HARGIS. They have 200 country stations.

The CHAIRMAN. They do not avail themselves of the hedging privilege?

Mr. HARGIS. They have done it at times; yes, sir.

The CHAIRMAN. They are now advocating abolishing future trading, are they not?

Mr. HARGIS. Yes, sir; the Kansas Flour Mills Co. is.

The CHAIRMAN. How do you account for that difference in opinion?

Mr. HARGIS. It might be accounted for in various ways. I can readily see why the Kansas Flour Mills Co. might prefer to have a market without the hedge for the reason that they have these country stations and their mills are interior mills. If there was no indicator of world values as reflected in the price of grain——

The CHAIRMAN (interposing). And they have sufficiently large capital and credit to buy as they want it?

Mr. HARGIS. Yes, sir. They could buy directly the product from the farmer without there being any public information as to world prices, and then they would buy as low as they could and sell flour as high as they could.

The CHAIRMAN. And that would put the smaller ones out of business?

Mr. HARGIS. Yes, sir.

The CHAIRMAN. And give the big fellow a monopoly?

Mr. HARGIS. Yes, sir.

The CHAIRMAN. Is that position well taken?

Mr. HARGIS. That is my position, and I think it absolutely sound.

Mr. TINCHER. That would be a new field for the Kansas Flour Mills Co.?

Mr. HARGIS. What is that?

Mr. TINCHER. Buying wheat cheap and selling flour high. Their reputation is that they buy wheat higher than anyone else, always above the market; and not only that, but there are a hundred little flour mills that the Kansas City Flour Mills Co. buys their product to fill their export orders, and the only little mill I have ever known of their putting out of business was by buying it and putting it into their concern. I have never known them to be unfair to small mills.

Mr. HARGIS. I would not want to represent them as an octopus.

Mr. TINCHER. Don't you think the country would be better off if we had a lot of little mills instead of always going to the big centers?

Mr. HARGIS. No, sir.

Mr. TINCHER. You think the little mills are a menace?

Mr. HARGIS. No, sir; I think the small mill is an advantage.

The CHAIRMAN. Your contention is that if one large mill is given an absolute monopoly in the milling business it would crowd out the little fellows?

Mr. HARGIS. Yes, sir.

The CHAIRMAN. The only way the little fellows can exist is to avail themselves of the opportunity given them in the hedge?

Mr. HARGIS. Yes, sir; that is my opinion.

Mr. TINCHER. Do you know of any little mill that uses the futures market?

Mr. HARGIS. Yes, sir.

Mr. TINCHER. What one?

Mr. HARGIS. The Ozark Water Mills Co., at Ozark, Mo. It is a little town of 400 or 500 people, and this mill has a capacity of possibly 100 barrels of flour a day, not more than that. I have known that man to make deferred sales of flour and to buy futures in the Kansas City mrket against his contracts. He is a client of mine.

Mr. TINCHER. I do not think there is a small mill in the State of Kansas that deals on the board of trade.

Mr. HARGIS. I think it has been the misfortune of Kansas that the millers have not used futures to a greater degree.

The CHAIRMAN. Is it not true that small mills in Kansas depend upon the local supply and buy in their own immediate vicinity?

Mr. HARGIS. Yes, sir. Of course if you take the larger mills, the Salina mills, and the Wichita mills——

The CHAIRMAN. (interposing). I mean the smaller mills?

Mr. HARGIS. Yes, sir.

The CHAIRMAN. Conditions are entirely different in South Dakota. You have a large number of mills in the State of Kansas, and you mill a large percentage of the wheat grown in Kansas?

Mr. HARGIS. Yes, sir.

The CHAIRMAN. But in North Dakota, for instance, practically all the wheat has to be sold in Miineapolis or Duluth?

Mr. HARGIS. Yes, sir. The question was asked me, either by you, Mr. Chairman, or Congressman Tincher, as to the cause of the difference in opinion among millers as to whether the future market is a desirable and beneficial thing or not. I have explained to you that I believe the Kansas Flour Mills Co. would like that merchandising basis with a sufficient intermediate profit that they could get along by buying direct at their country stations and milling the wheat at their interior plants. But the milling capacity of the United States is largely at the terminals, and they must buy futures against their flour sales or sell futures against their wheat as soon as possible in order to do the quantity of trading that they do. These mills have very large capacity, from 5,000 to 20,000 barrels a day, and they have to have this future market to carry their stocks. Some of these mills will carry 7,000,000 or 8,000,000 bushels of wheat I understand. They could not assume the risk on that without exacting a very large margin of profit to insure them against loss. I believe that the milling business would go to the same basis as the clothing business and such other businesses as that, and I shouldn't be surprised if 15 or 20 per cent were taken out if there were no hedging.

Mr. RIDDIE. Taken out of whom?

Mr. HARGIS. Out of the producer and consumer. It would be distributed, as a matter of course.

Mr. TINCHER. It would not take long to build a lot of small mills if that practice should be begun. They would build them very fast if that stunt were started.

Mr. HARGIS. As a matter of fact there is over-production in this country now. We have too many mills now.

Mr. TINCHER. Do you say we have too many flour mills now?

Mr. HARGIS. Well, there is not a sufficient demand for flour at this time. There was a great demand created during the war. They were not milling over in Europe then. But since peace has come

they want to give their own people labor, and I think that is the reason there has been a great exportation of wheat.

Mr. McLAUGHLIN of Michigan. Do you mean that the millers can not get the wheat that they want to grind?

Mr. HARGIS. No; I did not say.

Mr. McLAUGHLIN of Michigan. You said there were too many mills?

Mr. HARGIS. There is a potential possibility of over-production; if if those mills were running full shift we would have more flour produced in this country than we could consume and also export to Europe.

Mr. McLAUGHLIN of Michigan. The mills never lack wheat, do' they?

Mr. HARGIS. Not always.

Mr. McLAUGHLIN of Michigan. Why don't you go on the board of trade and buy?

Mr. HARGIS. We do not manufacture wheat; it has to grow?

Mr. McLAUGHLIN of Michigan. Can not the miller go on the board of trade and buy wheat when he wants it?

Mr. HARGIS. Oh yes.

Mr. McLAUGHLIN of Michigan. There would never be any lack of supply for him if he could go on the board of trade and buy?

Mr. HARGIS. I would not say never, but usually there would not.

Mr. McLAUGHLIN of Michigan. Why should there ever be a lack of opportunity?

Mr. HARGIS. Oh, you are making purchases on the board of trade against the necessities of a month hence?

Mr. McLAUGHLIN of Michigan. Yes.

Mr. HARGIS. He could buy 50 cars of wheat to-day, and then go on the board of trade and buy 50,000 bushels of March wheat, and then in the next day or so, whenever it was that the cash wheat arrived, he could close out his hedge, when he took in the cash wheat. That would enable him always to fill his order.

Mr. HULINGS. I think the gentleman answered your question perfectly when he said he did not manufacture wheat on the boards of trade. The fellows on the boards of trade are in competition with the fellows on the farm who are manufacturing wheat. Whilst you can go and buy wheat on an exchange at any time, in any quantity, it is unmanufactured wheat.

Mr. McLAUGHLIN of Michigan. I got the impression that the witness said sometimes they could not get the wheat they wanted.

Mr. HARGIS. I think you misunderstood me, then.

The CHAIRMAN. Is it not true to-day that there is a scarcity of wheat?

Mr. HARGIS. The demand for wheat this year has been largely an exporting proposition.

The CHAIRMAN. But if all the wheat were exported then there would not be anything left for the local miller?

Mr. HARGIS. No, sir.

The CHAIRMAN. There is really a scarcity of wheat?

Mr. HARGIS. It is my opinion that before this crop year ends the miller will find he has allowed too much wheat to go by his doors and out of the country without making purchases.

The CHAIRMAN. The miller can not go on the market to-day and buy wheat without paying a premium for it, can he?

Mr. HARGIS. That is true.

The CHAIRMAN. Is that not an indication that wheat can not always be bought at a normal price, and that if it is bought at all it must be bought at a premium?

Mr. HARGIS. That is the case right along this year. The reason that I think there is a premium on cash wheat over future, or the reason that I assign for that condition, is that so much publicity has been given to the matter of the farmers' holding movement. It has been believed, apparently, by a great many that that wheat must come on the market at some time and hence the discount in the future over the cash.

The CHAIRMAN. But the publicity did not result in holding the wheat. It resulted in storing the wheat and the bankers advanced money to the farmers to enable them to hold the wheat. The wheat was stored and went on the primary market.

Mr. HARGIS. The farm movement of wheat this year has been the most even we have ever known.

The CHAIRMAN. The what?

Mr. HARGIS. The movement of wheat this year has been the most regular we have ever known.

The CHAIRMAN. It has moved quite freely, hasn't it?

Mr. HARGIS. It has moved in an even flow. Kansas City has received almost exactly 6,000,000 bushels every month of the new crop.

The CHAIRMAN. On the other hand, if the farmers had held wheat in their granaries instead of storing it the scarcity would have been even greater?

Mr. HARGIS. Do you mean if they had held the wheat on the farm?

The CHAIRMAN. Yes.

Mr. HARGIS. Yes; there would have been a smaller available supply.

The CHAIRMAN. As it worked out wheat has moved just as freely as it ever did?

Mr. HARGIS. The farmers are more or less bullishly inclined. The car situation deterred them early in the season, and then later on the dissatisfaction with the price affected the situation. I think if earlier in the crop year railroad facilities could have been secured there would have been an extraordinary movement of wheat.

The CHAIRMAN. But by moving the wheat to the market and storing it a different result was secured?

Mr. HARGIS. They wanted to get it under cover instead of building granaries on their own farms.

The CHAIRMAN. And in that way they defeated the very purpose they had in view and created the very condition they did not intend to create, is that it?

Mr. HARGIS. I have an idea that you are speaking more particularly of the northwestern situation. In the Southwest only a few elevators make contracts to accept grain for storage and to forward to the market and make adjustment when sold.

The CHAIRMAN. It has been stated that the bankers of your section agreed to finance the crop and that it be stored?

Mr. HARGIS. They got their money out on it and have not been ble to get it back. But conditions are better than they were. But ll of the banks are showing very heavy rediscounts with the Federal eserve bank.

The CHAIRMAN. Instead of keeping it in their granaries the wheat s now in the primary markets?

Mr. HARGIS. It has gone on to Europe. And I can not believe that f the farmer had held his wheat that it would have benefited him ltimately. It would have only benefited the farmers who got in he first few cars after the advanced price had been made. If 100 armers had sought to take advantage, say, of $10 wheat, if it had eached any such point, when their wheat reached the market it would have precipitated a break. You can not put up a false price by holding wheat on the farm, because we have a potential supply all the time.

The CHAIRMAN. If that had happened the price would have gone up? Go ahead with your statement, Mr. Hargis.

Mr. HARGIS. It might not be unwise to suggest some thought as to what their wealth and profits might be had they been allowed to buy direct from the farmer at their 200 country stations, and sell direct to the jobber from their various milling plants, with no publicity as to what the world thought grain might be worth, with no publicity as to what the men now engaged in the grain business might think. In other words, they would create a condition under their resolution where the secrecy that prevails as to costs and profits on coal, in lumber, in steel, and in oil would also prevail in wheat and its products. There is no other industry in the world which has given the wide publicity to production, requirements, weather conditions, etc., that is afforded every citizen of this country every day by newspaper reports which are gotten from the wires entering the grain exchanges of the country.

In our exchange, during its life of more than 30 years, there have been practically no legal actions taken by outsiders against it, and members among themselves. When you consider the millions of dollars involved in daily transactions, and then consider that so perfect and equitable a process of operation has been evolved as practically to eliminate the necessity for court proceedings, it must be admitted we think that we are fundamentally sound and fundamentally fair. Men would not be satisfied with conditions of trade over such a long period if they had been subjected to harmful treatment.

In the discussions before the committee it is apparent from the transcript of the testimony that great stress is laid upon the enormous number of times the grain crops of this country are alleged to have been sold. There seems to have been no thought that for every seller there must be a buyer, and that the wheat crop of the farmer has been purchased just as many times as it has been disposed of. As a matter of fact, when a man sells a commodity he has simply one of two moves to make: he must either buy in that grain which he has sold before the delivery period has expired or he must make the actual delivery. Hence, every seller becomes a buyer in one form or another, and every buyer in turn is a seller.

Mr. YOUNG. Let me ask a question right there: Your contention is that it does not make any difference how many times a given com-

modity is bought or sold on these exchanges as far as affecting the market price of that commodity is concerned?

Mr. HARGIS. I think the broader the trading the more the market is stabilized. When we have a restricted trade because of any condition—and frequently we do have a restricted trade—the market is subject to violent fluctuations.

Mr. YOUNG. Let me get in there this, because this is one of the confusing things in my own mind about these future deals. I have been diligently trying to get the number of times the cotton crop is dealt in in any given season. I am now going to quote from some figures secured by Senator Norris Williamson, of the State Senate of Louisiana, and the memorandum shows that he got these figures from the Bureau of Markets. The figures are these:

For the fiscal year ending June 30, 1919, the cotton crop, the number of bales traded in on the New Orleans Exchange, was 33,681,500. Number of bales actually delivered on contracts during the same period was 41,000. For the same period of time on the New York Cotton Exchange—and we only have two of these cotton exchanges—future trading amounted to 71,183,600 bales for the same time.

From July 1, 1917, to October 1, 1919, in the New Orleans cotton market future trading amounted to the enormous figure of 87,485,500 bales, while only 112,500 bales of actual spot cotton was delivered to the buyers.

Now, take the first figures that I give there: The New Orleans Exchange and the New York Exchange being the two exchanges that deal in cotton in this country, and for that year there were 104,685,000 bales of cotton dealt in, while, as I now recall, the cotton crop for that year amounted to eleven or twelve million bales?

Mr. HARGIS. Yes, sir.

Mr. YOUNG. So it was bought and sold nearly nine times during that period?

Mr. HARGIS. Yes, sir.

Mr. YOUNG. Is it your contention that—and I presume the law would operate in the same way as to grain as it does about cotton.

Mr. HARGIS. I think so.

Mr. YOUNG. In your judgment what effect would that have on me as a cotton producer, my crop being handled on the market some nine different times?

Mr HARGIS. I think it was beneficial to you.

Mr. YOUNG. If you have covered it already in your argument, then all right.

Mr. HARGIS. I may have covered that in this statement. But I want to say that I think any process of trading that makes it possible for people to merchandise farm products—and that means cotton or wheat or any other commodity—in quantity, without causing any wide change or variation, is a good thing; in other words, a stabilized market is better for both producer and the consumer than a very widely fluctuating market.

Mr. YOUNG. Right on that point. Isn't it a fact that cotton and grain handled in such tremendous quantities over the actual product produced, does cause fluctuation?

Mr. HARGIS. No, sir; I think not.

Mr. YOUNG. For instance, I have witnessed in my home town that a farmer would telephone in to find out the value of cotton, on some given day, and the merchant would quote to him that cotton was worth, say, 18 cents a pound. By the time the farmer would drive into the market, 10 or 12 miles, I myself have witnessed the fact that that cotton had dropped maybe $10 or $15 a bale. Isn't the effect of handling these tremendous quantities on the exchanges the cause of that rapid drop?

Mr. HARGIS. No, sir. You must remember that you have hourly, in fact minutely, constant registration on the exchange through future trading of the price changes in cotton and grain, whereas in the case of automobiles or coal—or, we will confine ourselves to products, coal and oil; and as to them there may be overproduction, but the price does not change over a long period of time. You may get a change in coal prices every three months. You might get a reduction in merchandise from a house that sells clothing, every three months, or they may not change their prices, possibly, except every four months, and then there might be a great change. We get our fluctuations every day and every hour and minute in the day, and it is registered every moment.

Mr. YOUNG. That is what I am speaking about. When I was a small boy these cotton exchanges did not function as they do now. My father was cotton producer, and he watched the newspapers and kept up with the quotations on cotton, but in those days there were no rapid fluctuations. In those days, if I have diagnosed the situation properly, the law of supply and demand operated and the farmer knew every day what his cotton was worth. But under this new system, where this tremendous number of bales of cotton is handled on the exchanges, cotton that is not intended to be a real sale, you will have great fluctuations, maybe $15 in a day.

Mr. HARGIS. I am not familiar with the cotton exchange trading, and I do not know what their intention is. But I can not admit, in the first place, that there exists on the grain exchange no intention to deliver. I am not enough of a psychologist to tell what is in every man's mind. But let me tell you of a case that happened last week in Kansas City. An overnight bid was put out on wheat by a firm there, and they got 52 cars, I think, which was, approximately, 60,000 bushels. They based their bids to the country on the closing of the exchange at a certain specified premium over March wheat the day before. They put out a bid good until 9.30 o'clock the next morning. It seemed that in the country there had been pretty free selling around Kansas City. But the market in Chicago firm—

Mr. YOUNG (interposing). Now, this is an actual transaction?

Mr. HARGIS. Yes, sir. This firm, which had bought 52 cars of wheat, containing, approximately 60,000 bushels, fired their order into Chicago, and sold 60,000 bushels of March wheat there, because they could come nearer saving their situation there than if our markets were in normal condition. The sale in Kansas City had been taken care of and they were then at about a normal condition. First, the natural hedge for hard wheat was in our own market, so he bought in 60,000 bushels at Chicago and hedged it at Kansas City. About noon an Illinois miller came along with an order for wheat, and before the close of the market he sold him that 60,000 bushels of wheat. This is peculiarly a pat transaction.

Mr. YOUNG. There was always 60,000 bushels of wheat there?

Mr. HARGIS. Yes, sir. It was back in the country; it had never gotten to the market yet. This Illinois miller made a bid, and instead bidding a flat price they bid a certain figure over the future, and based it on the Chicago market for March wheat. He had the original hedge in Chicago, because it was a better point, and then had taken out his hedge there and brought it to Kansas City, because it was the natural point for his wheat, and then when the miller made this bid he had to buy in his Kansas City hedge and sell it at Chicago in order to exchange it there. They made sales as follows: Sixty thousand bushels in Chicago, then 60,000 bushels in Kansas City, and then 60,000 bushels again in Chicago. They traded in 180,000 bushels on the selling side and 180 bushels on the buying side. In all they traded in 360,000 bushels of wheat and handled one 60,000-bushel order of cash wheat.

The man in the country had gotten his price on the basis of the night before. This Kansas City firm was able to accept that bid from the miller only because earlier in the day they had put their hedge on Chicago, when the markets were out of line, and then brought it to Kansas City when the markets there were in line; and I think the firm got three-quarters of a cent a bushel out of it. And by the man placing his hedge at Chicago it worked out that the miller got his wheat a little cheaper.

Mr. YOUNG. In every little town like the town I live in, which has some 3,000 people, there is a board. We have our board, and there they get a market report all through the day, every minute. And I know that there may be 20 fellows in the room where the blackboard is watching the quotations as they move up and down. And may be a farmer, or a merchant, or a fellow dealing in cotton around town will have the man operating the board wire in selling 100 bales of cotton. This man never means to sell any cotton, or if he buys he does not mean to actually buy any cotton. It is a purely gambling proposition with him. But he follows that board and goes in or out as the situation may demand, and that is the practice on all those exchanges all over the country. I know those men personally that live in my town and know that they do not mean to buy or deliver any cotton, but they are simply doing what we call gambling—that is what it is—following the quotations up and down. You say that is done in the case of wheat?

Mr. HARGIS. The impression I intended to convey was this, that I am not a psychologist and can not tell whether a man who gives me a grain order has the intent to deliver or not, but the contract he has me make for him states that he has that intent, and I can not go back of what he states.

Mr. YOUNG. Assuming that my statement in reference to cotton is true, and I know it to be true from actual observation in my own town; and what is true of that town is true of every other town of that size in the country, and of course it is more largely true when you get to the larger centers, like New Orleans and New York. I say, assuming that people are wildly using these exchanges, and making deals where they do not propose to deliver, do you think that is a healthy situation as applied to the producer of cotton or the real consumers of cotton?

Mr. HARGIS. I want to state at the beginning that any discussion of the cotton business from my viewpoint would be purely academic. I have no knowledge of the cotton business. But I could go further than that and say that when people are wildly doing anything it is not a good thing; but if the question arises as to whether they are wildly buying or wildly selling, I can not see that you are ultimately harmed by their trading in a number of bales of cotton greatly in excess of the cotton actually grown. But I do think that when people are wild about anything the futures market has a tendency to bring them back to a stable position.

Mr. YOUNG. Are there boards of trade and exchanges in foreign countries to compare with our boards of trade and exchanges here that deal in cotton and wheat?

Mr. HARGIS. Not identically, but the Germans have had exchanges. The British have a form of exchange over there, but it is wholly dissimilar to ours. I really think the Chicago market is the control station for wheat for all the world. In Argentina, where they have no well-developed exchange system, the result is that there are few grain men, and they are the wealthiest grain men in the world, outside of a few French and British houses. On the other hand, the producers of grain in that country are the poorest in the world. In the producing business it is the peasantry, and in the grain-selling business it is the wealthy class. They buy that crop at a sufficiently low price always to make American merchandising profits look like merely a drop in the bucket.

Mr. YOUNG. I feel very sorry for the Argentine farmer if he is in any worse shape than our people are.

Mr. HARGIS. Well, my sympathies are always with the producer, and more particularly this year in that he has felt the effects of the changed world conditions on a crop which was the most expensive he ever produced. But the item of expense of production has not entered into the readjustment of the value of anything.

Mr. MCLAUGHLIN of Michigan. About these foreign exchanges, how about the one at Winnipeg, Canada? Is it about of the same class as the one at Minneapolis?

Mr. HARGIS. I have never been on the exchange at Winnipeg, but I think it is. I consider the Winnipeg market an open futures market.

Mr. MCLAUGHLIN, of Michigan. So that in answer to Mr. Young's question you will say that there are large exchanges in foreign countries?

Mr. HARGIS. I think you will find that under any restrictions here exchanges in Europe will become very general. They will have some means of registering the price changes before the people. They are very valuable to the whole people.

Mr. YOUNG. Let us assume that we do not have exchanges functioning in our country as they are now, either in cotton or in grain, but that the consuming countries do have exchanges functioning along the lines that ours do now function. What effect would that have on the products produced in our country?

Mr. HARGIS. I would rather have the registering station in our own country than to have it in Europe. I would rather have it at home. In Chicago we have the control station for wheat for both Europe and America. I think to have it in operation in our country

is greatly to our advantage as against having it in operation in other countries and not here.

Certainly there would be a heavy toll exacted from the producer, because it would be the natural thing for the buyer of grain to say: "I can not do anything with this grain. I will have to cable Europe to hedge it, and I will have to buy it at a wide discount in order to make me safe." Do you imagine that our newspapers would be full of market information if the grain exchanges were in Berlin or in Liverpool or in Paris instead of in this country? I certainly do not.

Mr. YOUNG. I do not know as to that. Unfortunately for cotton trading the Liverpool market opens before ours does, and therefore the Liverpool quotations play an important part in cotton trading. In my own view, without being able to give any reason for it, I would be afraid to destroy our exchanges here and leave the European exchanges in existence, because we are a producing country and they are consuming countries, as to cotton.

Mr. HARGIS. It would be a very dangerous thing to do.

Mr. YOUNG. I do not know just what effect it would have, but I would like somebody who has made a study of it to tell me what the effect would likely be.

The CHAIRMAN. You may continue your statement, Mr. Hargis.

Mr. HARGIS. We are faced with the very unusual proposition of being charged with reducing the selling figure on grain crops to a price out of line with their value, and keeping them there. It seems economically unsound to submit to thinking men that so liquid an asset as grain, a commodity which is in demand throughout the world, could be reduced for any considerable period of time to a price entirely out of line with its value and held at such a level. It would be equally as sound to say that gold dollars could be depressed to 90 cents and maintained at that level.

Prior to this year the trouble which exchange officials have always had has been in the control of operations on the long side of the market. It is possible to conceive of a man, or a coterie of men, of sufficient means buying a sufficient amount of a commodity and refusing to offer it for sale so that there might be an undue enhancement in value, but even in such a case whenever it has been attempted the invariable result, with one or two exceptions, has been that the operator attempting to corner a commodity has lost all and more than his profit when he attempted to "bury the corpse," as it is termed; that is, dispose of the grain which he has had to accept on contract. In other words, the loss in reselling cash grain has been greater than the profit accruing on that which sellers were unable to deliver him.

Concerning the matter of grades on deliverable grain covering future contracts, they were somewhat broadened this year on acccount of the general belief which existed among grain men that wheat was likely to go to a very high figure, and one which would bring the condemnation of the consuming public; hence it was deemed desirable to allow as much elasticity as could be wisely given to the kind of grain which would fill a hedging contract. I might say that the average American grain man, a member of an exchange, was just as badly fooled as the farmer as to the value of this year's crop.

Prior to July of this year the only grades deliverable in Kansas City were No. 1 and No. 2 hard winter wheat. No. 2 hard was the contract grade, but No. 1, which of course is a premium wheat, could be de-

ivered at the No. 2 price. The reason no premium was allowed for No. 1 wheat was in order to insure the buyer—the seller is usually the elevator operator—in case of deliveries to get the exact grade called for by his, the miller, or exporter's contract at contract price. Feeling that prices might run away in this season, and in the light of the experiences of the Grain Corporation that No. 3 hard wheat is a milling variety, it was added to our contract delivery at a penalty of 5 cents per bushel. This penalty of 5 cents was placed on No. 3 hard wheat in order to deter men of large means from selling huge quantities of wheat with the expectancy of delivering No. 3 wheat, which is at times more plentiful than No. 2. The 5 cent discount is an average milling difference. There are no other grades or varieties of wheat deliverable on contract in our market.

On corn contracts No. 2 corn is the grade specified, but No. 3 corn, which is a commercial grade under the grades standardization specifications, may be delivered at 2½ cents discount.

On oats the only deliverable grade is No. 3 white, or No. 2 white, of course, might be delivered by the seller but without premium to him.

The receipts of various grains in Kansas City for 1919 and 1920 are tabulated herewith and are as follows:

Receipts.		1920	1919
Wheat	bushels	70,738,650	72,137,250
Corn	do	10,813,750	15,901,250
Oats	do	7,553,100	12,503,500
Kaffir, milo, and feterita	do	6,066,500	2,150,500
Rye	do	893,200	612,700
Barley	do	2,461,500	2,140,500
Total	do	98,526,700	105,345,700
Flax	do	.....	3,000
Bran and shorts	tons	49.480	52,920
Hay	do	559,860	461,676
Flour	barrels	674,700	790,400

Amount of flour manufactured in Kansas City in 1920 was 3,597,246 barrels. Compared with the year 1919 the records show:

Wheat	bushels	[1] 1,398,600
Corn	do	[1] 4,987,500
Oats	do	[1] 4,950,500
Kaffir, milo, and feterita	do	[2] 3,916,000
Rye	do	[2] 280,500
Barley	do	[2] 321,000
Flax	do	[1] 3,000
Bran and shorts	tons	[1] 3,440
Hay	do	[2] 98,184
Flour	barrels	[1] 115,700

[1] Decrease. [2] Increase.

Amount of flour manufactured shows a decrease of 30,905 barrels.

This statement is formulated by E. D. Bigelow, secretary Kansas City Board of Trade.

In addition to these receipts, members of the Kansas City Board of Trade have probably handled more than this amount of grain which never touched our market, moving it direct from country stations to mills, other terminal markets, or the ports for export. All of this grain has probably been hedged, not only by one trader

but by several merchants who may at times have possession of it. Hence, this would account to some degree for the excess of future transactions over the grain which shows in any specified termina market during a given period.

In conclusion, we feel that the depression in prices of farm products has been due to numerous causes: First, of course, has been the reaction which was naturally due after a period of excessively high prices due to war necessities; second, the cry of the consumer for lower prices received so much attention from Government officials and press that faith in values of everything was well nigh destroyed; third, in calculating the value of our grains at the early part of the season producers and most men, even at terminal markets, forgot Canada to the north and the Argentine to the south, looking only to our country with its supplies and to Europe with its needs. Before we knew it, the great Canadian crop began to pour into our country and was offered at prices below those prevailing here. Export sales which were hedged by the purchase of wheat futures in Chicago, were more cheaply filled by the exchange of this future for Canadian grain. The British commission diverted its buying, in so far as it could, to its own colony; fourth, fear was in the minds of all exporters that Europe would not be able to finance its business, and with every cargo sold, the thought came to most men that the foreigners were approaching the time when they could not pay; fifth, bankers throughout the country preached liquidation, and grain was the most liquid asset against which the pressure could be brought; sixth, gradually an increased yield of wheat was shown with each additional report from the Department of Agriculture, hence world's figures compiled on one report were found to be of no value when the next report was issued, showing a greater production than we had known. The last report which was published gave an increase to Kansas alone of about 13,000,000 bushels, and to the United States about 39,000,000 bushels.

We believe that those who are engaged in business through boards of trade are serving the American people in a way that is wholly misunderstood and unappreciated, and we feel that any enactments, if made, should be not through the process of a tax which would be prohibitory, but by direct legislation so clear that there can be no misunderstanding as to whether we serve a good purpose and a useful purpose in the economy of our country.

It is a very popular thing, when adverse conditions arise, to cry out against the institutions existing, without at the same time being able to offer a substitute which is better. I have yet to hear a constructive idea with reagrd to exchange trading which will in my opinion improve conditions. To the contrary, it is my earnest belief that to surround them with limitations and restrictions will destroy them in their entirety, and create new lines of enterprise for a certain few, who command the great credit and a large part of the resources of our country.

Right at this point, Mr. Chairman, I would like to introduce with your permission, one or two letters which I have. I think they are sufficiently important to go into the record and to be read. One is from the National Bank of Commerce, of Kansas City, which is the biggest bank in the Middle West, west of St. Louis and Chicago:

NATIONAL BANK OF COMMERCE,
Kansas City, Mo., January 21, 1921.

Mr. BENJAMIN L. HARGIS,
President Kansas City Board of Trade, City.

DEAR SIR: I have just learned you will go to Washington to-night to appear before the congressional committee that has before it the question of future trading in grain.

I hope and believe you will have little difficulty in convincing this committee that it would be disastrous to the grain and milling trade generally if a bill was enacted preventing future trading. We perhaps have more grain and milling accounts than any bank in the southwest. I say to you we would not feel safe in advancing money on stored grain, or grain to arrive, unless there was a future market enabling the dealer to protect his purchases as well as his sales. We advance to many of our grain customers because of this protection many times the actual capital employed in their business.

I can not believe that Congress will pass such a measure after the matter has been presented to it as I am sure it will be by intelligent, unselfish, successful grain men like yourself.

Leaving the grain men entirely out of the question, the bill as contemplated would be disastrous to the farmers whom, as I understand, it is designed to help. It would retard the movement of grain in its usual orderly way and would have the tendency to make a speculator in cash grain out of the farmer, miller, and country grain dealer, because without a future market the large storage warehouse at terminal markets could not safely store grain for use of millers and exporters sold for deferred shipment.

This is not only a serious problem of the grain trade, but it is just as serious to the banker. I believe that you will be successful in convincing the committee, and if there is anything we can do to prevent its passage, please do not hesitate to command us.

Yours, very truly,

W. T. KEMPER, *Chairman of the Board.*

That is signed officially.

Mr. TINCHER. You say it is signed officially. What do you mean?

Mr. HARGIS. Yes, sir; it is signed as chairman of the board.

Mr. TINCHER. It is signed W. T. Kemper.

Mr. HARGIS. Yes, sir.

Mr. TINCHER. He is also one of the heaviest traders in grain in Kansas City?

Mr. HARGIS. Oh; he does not trade at all.

Mr. TINCHER. The Kemper Grain Co. does not?

Mr. HARGIS. That is owned by Hincher & Bedell. Mr. Kemper has not had a dollar in it for 15 years. When he went to another bank he sold the grain name, under an agreement not to reenter the business.

Mr. TINCHER. All right.

Mr. HARGIS. I have here another letter from the governor of the Federal Reserve Bank of Kansas City, tenth district:

FEDERAL RESERVE BANK OF KANSAS CITY,
January 12, 1921.

Mr. B. L. HARGIS,
President Board of Trade, Kansas City, Mo.

DEAR MR. HARGIS: Answering your inquiry 12th:

It is my personal opinion that unless handlers of grain, cotton, and some other commodities were able to protect themselves by hedges no bank would be safe in financing such transactions.

That a few people or a great many, for that matter, abuse this facility, so necessary for commerce, is no reason, in my opinion, why trading on the board should be prohibited.

Yours, truly,

J. B. MILLER, JR.

Mr. HULINGS. Mr. Chairman, it is admitted that futures perform a certain valuable function in trade, but the question here is whether there is any need of the great volume of gambling transactions. That is what this committee is trying to find about. I want to say that I am about fed up on statements along this line. I do not think we ought to sit here and hear this all over and over again when we have heard it stated one hundred times.

Mr. WILSON. I was just about to suggest a while ago that we might continue the hearings a while and look around the country to see if we could find some one who was really in favor of this legislation.

Mr. HULINGS. Every one of them is very, very clear that there are good things in it. Every one of these commission men and brokers and exchange men, of course, is in favor of having as many orders coming into the exchange as possible, because that is what they live on.

Mr. TINCHER. I think Mr. Hargis's testimony is different from most of the testimony that we have had here, and I want to give him credit for having read the bills that are before the committee. Most of the representatives of the exchanges throughout the country who have come here to testify have not had the pleasure of reading the bills that are before the committee; they just pronounced them unconstructive and bad without reading them, and I am sure that Mr. Hargis, who comes from Kansas City, has read the bill.

Mr. HARGIS. I have read your bill and the others.

Mr. HULINGS. But if there are any to be heard on the other side I would like to listen to them. My idea is that pretty nearly everything that we have heard so far was against the bill, and all from about the same sources, and there has been enough of that.

The CHAIRMAN. Practically all the witnesses have been in favor of continuing the hedging feature.

Mr. TINCHER. I think that practically all the witnesses, except those who have or own an interest in an exchange, or are directly interested in the present system, have admitted the unfairness and the inequity of gambling in futures.

The CHAIRMAN. And nobody seems to be able to differentiate between gambling and hedging.

Mr. TINCHER. I think some of the witnesses have done that satisfactorily, and some Members of Congress seem to think they can do that without witnesses.

The CHAIRMAN. It has been contended that you would have to have the speculator in order to have hedging. That seems to be quite generally agreed. And then there is the question as between the gambler and the speculator.

Mr. MCLAUGHLIN of Michigan. What I want to say is that a great many times when you have hearings the gentlemen on one side of the question select somebody to present their views, and it is ordinarily considered a good plan to follow. It saves the time of the gentlemen who come here, and it saves the time of the committee. Many of these statements have been very interesting indeed, very instructive, but at the same time many of them have been alike. As far as I can see there has been very little that was new in many of them.

The CHAIRMAN. This being a very important question it was thought that everybody should be given an opportunity to be heard; that the opponents of the bill might present any witnesses that they cared to present, and that those who were in favor of the bill might do the same; in other words, that those who were either for or against the bill might come in in unlimited number, and the committee would accommodate them as far as possible. We hope now to hear every witness that has signified any real desire to be heard. We hope to hear all of them. We have on the list now about eight more witnesses, and when they have been heard everyone that has indicated a desire to be heard will have been heard.

Mr. MCLAUGHLIN of Michigan. Don't a number of these gentlemen feel that everything they can say has already been said? I have given all the time I could possibly give to this hearing; I have been here pretty regularly. Sometimes it has been absolutely necessary for me to be absent. And in order to save the time of the men who come here, and to save the time of the committee, it seems to me that unless these gentlemen feel they have something new to offer, they might just as well register their names here and the positions they occupy, and state their general position, as to take their valuable time in making a lengthy statement.

The CHAIRMAN. It is suggested by Mr. Young that inasmuch as there are only about seven or eight left we ought to hear all of them, but in view of the pressure of business nobody should take offense because time is not consumed in asking questions in cross-examination, because that matter has been gone over quite thoroughly before.

I think that if an interested party, or an exchange, wants to present his or its views, that opportunity should be given to do so even though it may be necessary to cover the ground that has been previously gone over, and in view of the importance of the question it was thought that as much time as possible should be given to the examination of witnesses by giving everybody an opportunity to be heard.

You may proceed, Mr. Hargis.

Mr. HARGIS. I have some data here that I would like to submit to you. It has been stated by the press, and I have heard individuals state that the producer was not subject to violent fluctuations in price during the period of Government control, at least when there was a guaranteed price. I am submitting to you an exact copy of the records contained in our official price register, covering the prices of No. 2 hard wheat in the Kansas City market, beginning January 2, 1920, and continuing to February 28, 1920.

On January 2 the high point on No. 2 hard wheat in Kansas City was $2.88.

On the 6th, four days later, it was $3.05. That was an advance of 17 cents in four days.

On the 9th, three days after this, it was down 12 cents, to $2.93.

The next day, the 10th, it was up 5 cents, to $2.98.

On the 12th it was down 8 cents, being $2.90.

On the 13th it was $2.91.

It sold up to $2.96 on the 16th.

On the 17th it was $2.90, and on the next business say, the 19th, it was $2.80, a break of 10 cents.

It was $2.68 on the 23d, that is a break of 12 cents in three days.

It was $2.76 on the 24th, that is an advance of 8 cents.

It was $2.70 on the 26th and 27th; that was a decline of 6 cents on the 26th.

It sold up 5 cents the next day, the 28th.

On the 29th it was $2.75.

On the 30th of January it was $2.70.

On the 31st it was $2.62.

Continuing, the low point was reached on February 21, when it was $2.22. We had a drop there in about 40 days, 40 business days. of 80 cents per bushel from the high to the low on No. 2 hard wheat on the Kansas City market during the Government control. I think there has been nothing in the history of the exchange since the reopening of futures that is a parallel to that. That shows that you can have a precipitate decline when you get a premium commodity even if there is a basic guaranty. Of course that is accounted for by the fact that during the period of advance there was an acute demand, and when the wheat began to arrive in volume there was no outlet for it, the buyers were out of the market, and the probabilities are—in fact, it seems to be highly probable, that had we been operating under futures at that time the market would not have run away as it did. The British were very active buyers of wheat, and the cash market, where the requirements have to be filled by going right out and getting the wheat, it is a very sensitive affair, and subject to a much more violent fluctuation upward, and as soon as the demand is satisfied the immediate decline is very rapid.

Mr. LEE. These figures that you have given are taken from what year?

Mr. HARGIS. This past year, 1920. This is during the period of Federal control; this is January and February.

Mr. HULINGS. When was the prohibition of futures revoked?

Mr. HARGIS. In 1917 we discontinued the trade in wheat.

Mr. HULINGS. Well, when did you reopen it?

Mr. HARGIS. July 15 of the past year.

Mr. HULINGS. What was the price of wheat on July 15?

Mr. HARGIS. It was about $2.85. It was varying.

Mr. HULINGS. Now the fact that there is trading in futures doe not seem to have kept in the meanwhile from going off?

Mr. HARGIS. No, and that is because our crop moved and the Canadian crop moved, and the Argentina crop moved. I think one of the potential features in the decline has been the fact that there is still such a considerable amount of wheat on the farms that has to come in here some time.

I would like to put this statement that I just referred to into the record.

The CHAIRMAN. Without objection, it may be incorporated.

(The price record of No. 2 hard wheat, Kansas City, presented by Mr. Hargis, is herewith printed in full, as follows:)

Number 2 hard wheat at Kansas City, Mo.

Date.	High.	Low.	Date.	High.	Low.
1920.			1920.		
Jan. 2	$2.86	$2.72	Feb. 2	$2.55	$2.55
Jan. 3	2.92	2.75	Feb. 3	2.60	2.45
Jan. 5	2.95	2.75	Feb. 4	2.45	2.38
Jan. 6	3.05	2.85	Feb. 5	2.46	2.35
Jan. 7	2.98	2.85	Feb. 6	2.52	2.40
Jan. 8	3.00	2.85	Feb. 7	2.55	2.40
Jan. 9	2.93	2.83	Feb. 9	2.55	2.45
Jan. 10	2.98	2.80	Feb. 10	2.55	2.45
Jan. 12	2.90	2.75	Feb. 11	2.50	2.45
Jan. 13	2.91	2.75	Feb. 12	(1)	(1)
Jan. 14	2.88	2.75	Feb. 13	2.60	2.55
Jan. 15	2.95	2.78	Feb. 14	2.57	2.46
Jan. 16	2.96	2.80	Feb. 16	2.58	2.48
Jan. 17	2.90	2.75	Feb. 17	2.66	2.50
Jan. 19	2.80	2.70	Feb. 18	2.50	2.45
Jan. 20	2.80	2.65	Feb. 19	2.40	2.40
Jan. 21	2.75	2.65	Feb. 20	2.36	2.35
Jan. 22	2.77	2.68	Feb. 21	2.35	2.25
Jan. 23	2.68	2.65	Feb. 22	(1)	(1)
Jan. 24	2.76	2.55	Feb. 23	(1)	(1)
Jan. 26	2.70	2.56	Feb. 24	2.40	2.25
Jan. 27	2.70	2.55	Feb. 25	2.52	2.30
Jan. 28	2.75	2.60	Feb. 26	2.60	2.45
Jan. 29	2.75	2.60	Feb. 27	2.60	2.43
Jan. 30	2.70	2.58	Feb. 28	2.40	2.38
Jan. 31	2.62	2.55			

[1] Holiday.

Mr. HARGIS. Now, after having sold as low as $2.25 on the 24th, it sold as high as $2.60 on the 28th. Now that marks the gyrations of the wheat market during that period.

I have an expense bill here which covers a movement of a car of wheat from a Colorado point to the Gulf, to Galveston, Tex., for export, on which the freight charges were $1,158.76.

The CHAIRMAN. On one carload of wheat?

Mr. HARGIS. On one carload of wheat.

Mr. YOUNG. How much is that per bushel?

Mr. HARGIS. Sixty cents per bushel. As a matter of fact, there are intermountain points where the export rate is as high as $1.40 per hundred, and I think there are some that carry as high as $1.50 per hundred.

Mr. YOUNG. Is that 60 cents a bushel transportation charge from the Colorado point to Galveston?

Mr. HARGIS. Yes.

Mr. WILSON. Is that an ordinary freight charge for a car of grain?

Mr. HARGIS. No; this is from an intermountain point. Those intermountain freight charges are high.

Mr. YOUNG. When was that shipped? Was that under the new transportation act, under the freight charges that now exist?

Mr. HARGIS. Yes; billed from the point of origin November 16. The freight bill was paid at the Gulf on December 30. I would like to place this in the record.

The CHAIRMAN. Without objection, it may be incorporated.

(The freight bill presented by Mr. Hargis is herewith printed in full, as follows:)

GALVESTON, 12/23/20.

S. O. N. F. Y. Fisher Gr. Co., To International & Great Northern Railway, Dr., James A. Baker, Receiver.

Road, C. & S. Sixela, D. C. I. G. N. Bill, F 40557.

Billing station and route, Denver, Colo. Way-bill number and date, 11/16/20; C. & S.; 48271. Car initial and number, Pa. 46330.

Shipper, R. R. Howard, 11/5, D. S. L., 316; 11/15, Craig, 704.
For freight and charges on blk. wheat, weight, E. W. 111,420, 12/19; rate, 62; freight $690.80; advances, $467.96; total, $1,158.76. trackage, 50 cents. War tax, 2 cents.
S. S. J. R. G. for export, H.
Paid Dec. 30, 1920. Jas. Witherow, joint agent, G. H. & H.; I. & G. N.; M. K. & T.

Mr. HARGIS. In 1910 the export rate on wheat from Wichita, Kans., was 15 cents. It is now 50½ cents. That is an increase of 333 per cent in freight on grain. An increase of 333 per cent in freight charges on wheat for export from Wichita, Kans., from 1910 to 1920.

Mr. HULINGS. I think that is something that had better be looked into.

Mr. HARGIS. Under that charge system now who pays the freight: the farmer?

Mr. HARGIS. He surely does; yes, sir.

Mr. YOUNG. You don't wonder then that they are quitting the farm?

Mr. HARGIS. No. The present railroad rates may be necessary, and it seems the measure has passed granting these increases, but I know the high charges are exacting a very heavy toll from the producer, and that prices on corn now at terminal markets, and prices on wheat at terminal markets, are reflecting a very much lower value to the producer than they would reflect a year and a half ago.

Mr. HULINGS. You said that there was a raise of two hundred and some per cent. Over what period is that? What period is represented in that raise of over 200 per cent?

Mr. HARGIS. That is over a 10-year period in a readjustment of the rate fabric that is what happened.

Mr. VOIGT. Well, if the price of that carload of wheat—wheat, is it?

Mr. HARGIS. Yes.

Mr. VOIGT (continuing). Is regulated by the world market, then of course the farmer that raised that wheat is paying that transportation charge.

Mr. HARGIS. Yes, sir, I believe it. I know it. It has to be. Wheat being sold in the intermountain territory that is not bringing him over $1.05. And that is for the choicest grade of wheat. Your source of outlet is the exportation proposition, and when a man is located a long distance from the point of export it costs him a considerable amount to move it all-rail.

Mr. YOUNG. That is, carrying that particular car of wheat from the point of its origin to Galveston?

Mr. HARGIS. Yes, sir.

Mr. YOUNG. Now, that represents the railroad charges alone?

Mr. HARGIS. Yes, sir, that represents the railroad charges alone.

Mr. YOUNG. Now then, that probably is going to some European country??

Mr. HARGIS. Yes.

Mr. YOUNG. Now have you figures as to the water transportation?

Mr. HARGIS. No, sir. Ocean rates are very variable, and recently there has been a decline in ocean rates.

Mr. YOUNG. You can not make an estimate as to the ocean transportation?

Mr. HARGIS. No, sir, I would not hazard a guess on a proposition that I don't know about. But there are men here who know. Mr. Barnes will be able to tell you exactly what ocean rates are.

Mr. YOUNG. That is a very important item, because when the water transportation is added that is also related back to the man who raised the wheat on the farm.

The CHAIRMAN. Is it your contention, then, that the higher rate of transportation is the cause of low price of wheat to the farmer?

Mr. HARGIS. Well, as a matter of fact there is the prima facie evidence of it. It is a self-evident fact that the higher the cost of getting it to market the less he gets out of it, when we are on a world level—when we have a surplus.

The CHAIRMAN. You stated the rate was 15 cents, and that now it is 50 cents. There the farmer lost 35 cents a bushel.

Mr. HARGIS. The farmer lost 35 cents a hundred; yes, sir; that would be about 22 cents a bushel.

The CHAIRMAN. The fact is that with the high railroad rates it is almost impossible to market the grain.

Mr. HARGIS. Yes, and the farmer comes up against this proposition: He has paid 8 to 10 cents for gathering his corn, which is an unusual thing.

The CHAIRMAN. In my section of the country some paid 12 cents.

Mr. HARGIS. Well, in my section I know I paid 10 cents myself to have some corn gathered. And 10 cents is three times the usual gathering charge. And then we have on corn to pay a 90 per cent freight increase.

The CHAIRMAN. Ninety per cent?

Mr. HARGIS. Ninety per cent freight increase, when you consider that it used to be at a discount under wheat, and was brought to the wheat basis. So there is a penalty in the hauling, and he is paying also the penalty of high labor.

Mr. TINCHER. The spread you give, Mr. Hargis, covers a period of 10 years?

Mr. HARGIS. Yes.

Mr. TINCHER. Well, most of that increase has been in the last four years?

Mr. HARGIS. It started with the Government control.

Mr. TINCHER. And that is due either to a bad railroad law or the administration of it, in so far as it affected the agricultural interests?

Mr. HARGIS. It has worked to the detriment of the agriculturist.

Mr. TINCHER. You don't know what justification there was for changing the basis of those rates?

Mr. HARGIS. I am not a rate expert.

Mr. TINCHER. You are somewhat familiar with the increases that have been granted to the railroad employees?

Mr. HARGIS. Yes, I am familiar in a general way with the increases that have been granted to the railroad employees.

Mr. TINCHER. Under the present administration?

Mr. HARGIS. Yes, sir.

Mr. TINCHER. And the increases in rates that have been granted to the railroads to meet those increases that have been granted to the railroad employees?

Mr. HARGIS. Yes; I know of that.

Mr. TINCHER. Are you familiar with the raise in wages that was granted the employees of the railroads last July?

Mr. HARGIS. No. I think it did not affect all employees, did it?

Mr. TINCHER. Well, it affected the brotherhoods.

Mr. HARGIS. Well, I know that there was a considerable raise in wages.

Mr. TINCHER. And are you familiar with the raise that was granted to the employees four years ago?

Mr. HARGIS. I know there has been a succession of wage raises among the carriers.

Mr. TINCHER. And then there was a raise in rates granted to meet the raise in wages?

Mr. HARGIS. Yes.

Mr. TINCHER. And also, to pacify the owners of the railroads, the board, when the last increase was granted in wages, granted the railroads a double increase in rates so as to afford the railroads their profit above all that, and it all came off the farmer, did it not?

Mr. HARGIS. All these costs come off the farmer. That is as far as I can go in my answer.

Mr. TINCHER. I understand you are not in sympathy with the present administration for the last four years, as far as its railroad policy is concerned?

Mr. HARGIS. Well, I am perfectly willing to answer your question. I think that you correctly divined my opinion. I think you answered the question for me.

Mr. TINCHER. Well, I want you to understand that I am heartily in accord with your opinion. And I think I have a record that will bear that out.

Mr. YOUNG. Are you in sympathy with the present railroad law that contains these rates, that was passed by the present Congress?

Mr. HARGIS. I can not conceive of a condition which makes the present freight charges proper. I can not see the justification for them. And I do believe that it is due the American people that there be some liquidation in rail labor the same as in other lines and in other industries. I think there ought not to be preferred classes.

Mr. VOIGT. Have you concluded your statement?

Mr. HARGIS. I am through with my statement, yes, unless there are some questions to be asked.

Mr. VOIGT. The freight receipt to which you referred has been made a part of the record?

Mr. HARGIS. Yes, I put it in.

Mr. VOIGT. Is it your opinion that so far as grain is concerned the increased freight rate comes directly out of the pocket of the farmer?

Mr. HARGIS. Yes, unquestionably, because wheat is on an export basis. The world level makes our domestic price at this time. And, since we are on the world's price level, any charges that are against that wheat come out of the producer.

Mr. VOIGT. What do you say about corn and barley?

Mr. HARGIS. Well, that is a domestic proposition. I think that one cause of the big decline in the corn market was the fact that they continually increased the crop estimates. We started out with an estimate of about two billions and three-quarters, and wound up with an estimate by the Agricultural Department of approximately three and one-half billion bushels.

Mr. VOIGT. Well, the price of one commodity is reflected, to some extent, in the price of another commodity?

Mr. HARGIS. I think so; yes, sir.

Mr. VOIGT. So, then, the farmer would also suffer in the matter of corn and other grains?

Mr. HARGIS. Yes; that is right. And you and I suffer in the matter of coal.

Mr. VOIGT. That is a burden that the producer can not pass on to the consumer in this country.

Mr. HARGIS. No; it can not possibly be passed to the consumer when you have any exportable surplus.

Mr. HULINGS. Well, do you think that the export of grain or any other product of this country fixes the market for all that is produced, practically?

Mr. HARGIS. Oh, I think that is absolutely sound economically, that your surplus makes the price of your crop.

Mr. HULINGS. Well, if Liverpool makes the price of wheat, where is the function of these exchanges?

Mr. HARGIS. I never said that Liverpool made the price of wheat. The world demand makes the price for wheat; the competition for the world's supply.

Mr. HULINGS. Well, Liverpool is a part of the world, and so helps to make the price for wheat.

Mr. HARGIS. Yes; but I wouldn't localize it to Liverpool.

Mr. HULINGS. If the world then makes the price, what is the idea of the exchange?

Mr. HARGIS. The opinion of the world is expressed through the exchange. It is the control station, the registration, that shows the value of wheat.

Mr. HULINGS. Thank you.

The CHAIRMAN. Have you concluded your statement, Mr. Hargis?

Mr. HARGIS. Yes; Mr. Chairman, I have nothing further to add.

The CHAIRMAN. Thank you very much.

Senator Dial, do you prefer to make a statement without interruption, or do you wish questions asked as you go along?

Senator DIAL. Well, Mr. Chairman, I wish to make a statement, and I will be glad to answer any questions that may be asked at any time.

STATEMENT OF HON. NATHANIEL B. DIAL, UNITED STATES SENATOR FROM SOUTH CAROLINA.

Senator DIAL. Gentlemen, I understand that you have the question of future contracts for cotton before you, and that is what I want to talk about for a little while. I am not here representing any particular interest. I am interested in farming and manufacturing, banking, and other enterprises, and what I would like to see would be a just law, for as I understand the futures contract law, it is not just, it is not fair, and it is not honest.

All my life I have heard that the farmers were robbed out of a great proportion of the value of their product. I am an optimist and never took much stock in that, and do not like to say that people are robbed. After I came here, however, I concluded that I would look into this question and see whether there was any foundation for the statements that I had heard. I had never heard anyone explain how he was robbed.

Now, I understand that the futures contract law states that the seller has the option of tendering any one or all of 10 grades. There are only 10 grades that are tenderable under contract. Many years

ago there were 20 grades, but a few years back they eliminated some of these grades, and made only 10 grades tenderable. Under the law the seller has the option of tendering any or all of the 10 grades. The purchaser has no option, except to sell out, or to accept whatever is tendered him.

Now right there, I think, is where the wrong exists. Any contract which allows one party 10 options, and which allows to the other party no options, is an unfair contract.

Now I have proposed an amendment over in the Senate, which is pending over there now, and I hope you will all study it over here.

Mr. McLAUGHLIN of Michigan. Is that contained in a bill you have introduced, Senator?

Senator DIAL. Yes, sir.

Mr. McLAUGHLIN of Michigan. Will you give the number of it, please?

Senator DIAL. Yes; I will present a copy of it for the record.

The CHAIRMAN. Without objection, it may be inserted in the record.

Mr. McLAUGHLIN of Michigan. What is the number of it, Senator?

Senator DIAL. 4636.

(The bill presented by Senator Dial is herewith printed in full, as follows:)

[A BILL To amend section 5 of the United States cotton futures act, approved Aug. 11, 1916, as amended.]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5 of the United States cotton futures act, approved August 11, 1916, as amended, be, and the same hereby is, amended as follows:

In the fourth subdivision of section 5 of said act, insert "(a)" after "fourth," and before "provide," and add at the end of such fourth subdivision:

"(b) Provide that unless cotton in the basis grade be tendered in settlement of such contract, the buyer shall have the right to demand that one-half of the amount deliverable under the contract shall be delivered in equal quantity in two grades, to be specified by him, and that the seller shall have the right to tender one-half of the amount deliverable under the contract in equal quantity in two grades to be specified by such seller."

The foregoing amendments shall be effective on and after the thirtieth day after the approval of this amendatory act, but nothing herein shall be construed as applicable to contracts entered into prior to the effective date of this amendatory act, or to affect rights acquired or powers exercised thereunder.

Senator DIAL. Last year Senator Comer was here as Senator from Alabama. Senator Comer introduced an amendment to the futures contract law, and his amendment, in brief, was to let the purchaser have the option of selecting one-half of the quantity of the contract in middling cotton and above. Well, to be candid with you, I had never studied the futures contract law, notwithstanding I have raised cotton all my life. I presume that the law was reasonably honest. I did not think that Congress would allow a law to exist which would be oppressive to any class or any section of our people. I will state further that I have no favors to ask for any particular class, but if I had any favors to give I would certainly extend them to the producer.

Now, Senator Comer introduced that amendment, and I will just give you very briefly the proposition that he made in regard to it. First I will say that Senator Comer is a very successful business man. He is the president of the Avondale Cotton Mills and several other cotton mills in Alabama, and not only that, but he is also the largest

farmer in the State of Alabama, I am told, and has been very successful indeed in business affairs and has the good of the country absolutely at heart, and he wanted to see a fair law passed. His idea was to let the purchaser select one-half of the quantity of the contract in middling and above; to let the purchaser select one-half the quantity of the contract instead of the seller selecting all of the quantity. Senator Comer's amendment was passed in the Senate, but failed in the House.

Now, there was a great propaganda gotten up against Senator Comer's amendment, the idea being at that time that there was a great deal of off-grade cotton in the South. When you spoke of middling, which was good grade cotton, and fair, you wanted a higher grade. Now, we have a great deal of this off-grade cotton in my own town. I was president of a bond house in my town, and I know something about the conditions at that time. We had a great deal of that off-grade cotton, and the farther west you went and the farther south you went you found more of it. Now, that was not by reason of any contract law, as I understand, but it was directly a result of the war. During the war the Government had its goods made out of fine grades of cotton, and that to my mind was very foolish. I was not in the Senate at that time. But in my opinion that was simply an unnecessary expense. And it consumed practically all of the good grade cotton that was grown and left a great quantity of off-grade cotton. We sometimes call it "dog-tail" cotton, refuse cotton, blue cotton—all less-grade cotton. Now, as I say, by reason of the Government taking all of the good grade cotton for its purposes, and also by reason of Germany and Austria not being in the market—and they had been taking probably 3,000,000 bales per annum before the war—there was a great accumulation of this off-grade cotton in the South. Therefore Senator Comer's amendment aroused a considerable amount of opposition on the part of a great many of our southern friends.

Now I took this matter up with the Department of Agriculture last summer, and with others. I asked what the objection to Senator Comer's amendment was. I was told that if Senator Comer's amendment was allowed to become a law, the purchaser would select all of the half of the contract in middling and fair. That is the highest grade cotton grown. And there is very little of it grown. So the objection to Senator Comer's amendment was that if the purchaser had the right to select all of that half of the contract he would corner the market and the price would go sky-high. That was the objection to it.

Now, my proposition is this. If there is very little of middling and fair grown, and if the purchaser should select one-half the quantity in that and run the price sky-high, that would not be fair; that would not be just. Therefore you had better eliminate middling and fair as one of the grades in which you can deal.

But I don't see as much sin in letting the purchaser have the option of selecting half of the quantity of the contract in any grade he saw proper, and run the price sky-high, as in letting the seller select all of the quantity of the contract in any grade that he saw proper. So in the interest of the purchaser I advocated Senator Comer's amendment.

Now, under the law the seller can divide the quantity of the cotton between the whole 10 grades as he sees proper, or he can select all of the cotton in any one grade that he may see fit. Now, I don't see any more harm in letting the purchaser select half of the quantity and running the price up than in letting the seller select all of the quantity and run the price down.

Mr. HULINGS. Well, Senator, it is not a question of selection, is it? The cotton is sold, and it is delivered, and on inspection it is found to be either above or below the grade of the contract.

Senator DIAL. Yes, they have a graduated schedule of price. I will come to that in a minute. Now, the Agricultural Department claims that there will not be enough of this high-grade cotton that I spoke of to go around. Well, my answer is that there is not enough of any grade to go around if the purchaser demands the cotton. As I say, I don't think the Comer amendment was perfect, but it was a lesser evil than the present law, and his intentions were good, and his amendment was meant to correct a great harm, as I see it.

Now, to go back a little further. An amendment which would be absolutely honest and fair would be this: Let the seller have the option of tendering one-half of the quantity of the contract provided he divides it equally between five grades. Let the purchaser have the option of taking the other half of the quantity of the contract, provided he divides it equally between five grades. Then you would get a spread of all the 10 grades. Then some of each of the 10 grades could be furnished. That is a fair and honest proposition.

I took this matter up with the Agricultural Department many times last summer, and I am now convinced that that is the honest and fair way of doing it, and I believe it is workable. There are 10 grades that are tenderable.

Mr. HULINGS. Now, Senator, we will say that a bale of cotton is sold on a contract at a certain price, of a certain grade. When it arrives for delivery it is found not to be of the grade that was sold. Now then, you have to determine by a system of differentials how much the producer is to take less than the contract price because his cotton has not graded up to what it was to be?

Seanotor DIAL. Well, I am coming to that now. I will now, Mr. Chairman, touch upon the point raised by Mr. Hulings. It is argued that the exchange is not a spot market; that the operation of the exchange is done to hedge. Now while that is true, that it is intended to hedge, yet it does not properly function.

But I doubt whether that is a workable proposition, because you would have to keep a great quantity of cotton on hand to be able to supply the equal quantities between the 10 grades in case demand for delivery should be made. As I say, that would be an honest and fair provision, but possibly that is not workable.

My amendment is this: Let the seller have the option of tendering one-half of the quantity of the contract provided he divides that equally between two grades.

Mr. YOUNG. Senator Dial, what two grades would you suggest?

Senator DIAL. Any two. I am not interfering with any of the tenderable grades. I am not trying to interfere with the law at present in force. Ten grades, I think, perhaps, is all right. My intention is not at all to interfere with the present law, so far as the number of grades that are tenderable is concerned, but I propose

that out of the tenderable grades the seller shall have the option of selecting one-half of the quantity of the contract in any two grades, but he must divide it equally between two grades. And also to let the purchaser have the option of demanding that one-half of the amount deliverable under the contract shall be delivered in equal quantity in two grades, to be specified by him.

I propose that the purchaser shall have the right to demand that one-half of the quantity shall be delivered as specified by him, provided he divides it equally between two grades. Now, that would answer the argument that was made against Senator Comer's amendment that all of the half would be selected in the finest grade, and that therefore you would corner the market. Of course, it is not right to corner the market, and my amendment would provide against that.

Let us take an example: Assume that you are running a mill out beyond the Potomac River here, away from where the cotton is. And assume that that mill has an offer of a supply of cotton for 12 months, and the president should say to the superintendent: "I have made a contract for a thousand bales of cotton per month for 12 months, to run our mill. Now, I have made an arrangement with the bank for the money. All you have to do is to call for the delivery of the cotton and the bank will pay for it, and we will run along smoothly through this year."

The CHAIRMAN. You are now referring to a future transaction?

Senator DIAL. Yes, I am trying to hedge. Now, he has bought a thousand bales of cotton per month for the entire year. But the superintendent would say to him, assuming the superintendent knew more than the president did about it, "Mr. President, we are spinning number 9 grade. We are spinning next to the highest grade. Our mill is rigged up to make a certain kind of cloth, and we have to use that kind of cotton to make that cloth. That is the kind of goods we are selling. Now, the seller of this cotton may tender us a number 1," the coarsest grade of cotton that is grown, "and we can not manufacture that." And the president might say, "Haven't we some rights in the matter? Can we not demand the same grade of cotton as we are using?" And the superintendent would say, "No, we can not." "Well, can't we demand half of it?" And the superintendent would say, "No, we can not demand a thing. We have got to take whatever the seller tenders us, and if he tendered us a grade of cotton that was not the grade we use in our mill, we could not use it. Our mill is constructed to use a certain grade of cotton and we can not use any other. We are making fine goods, and if the seller should tender us a number 1 cotton we could not use it at all."

Now, under those circumstances, gentlemen, if cotton other than the one grade that the mill was using was delivered, it could not be used by that mill. And the mill could not demand a delivery of that particular cotton. So it would have to sell its contract and go down South to buy cotton.

Now, I want the contract to represent spot cotton, or as near spot cotton as possible.

The CHAIRMAN. At a certain contract rate?

Senator DIAL. Yes. Now, there is a graduated schedule of differentials, and properly so, between the grades. But the mill does not

want to sell out its contract and go out on the market to buy other cotton, so the reason it hedged was because it might desire delivery of the cotton, as it might be able to use it. Now, if the purchaser could get half of what he needed he could take the other half that he could not use and tender that on some other contract. Or two mills could get together, one using a fine grade and the other using a coarse grade cotton, and in that way they could accept delivery of it. But as it is, knowing that you can not get what you want, or any part of what you want, you sell out all the time, and you are on the run, and the price goes down all the time.

Now, a man buys a contract. Why? He can not use it in his mill, but he buys it because he thinks it is cheap. There is no difference between that and a man buying a secondhand automobile which he does not want and can not use, but which he thinks he can dispose of to somebody else at a profit.

Now, gentlemen, I am not an extremist, but I don't want to see a large proportion of the value of our crop taken from the producer. I think he is deprived of a large proportion of it every year. Now, we southern people know that the spot market is governed by the futures market. It is claimed by some that it is not, but of course we know that it is. The buyer won't bid until the New York Exchange opens and the reports come in.

The CHAIRMAN. You speak of the reports. Do you have reference to the reports as to the cash market or the futures market?

Senator DIAL. The futures market.

The CHAIRMAN. Does the cash govern?

Senator DIAL. No, sir.

The CHAIRMAN. If cotton is worth in New York to-day 11 cents cash, it may be only 7 cents for the futures? If the cash market goes up 1 cent, is that what the dealer is waiting for, to know what it will sell at for cash?

Senator DIAL. No; but you can not get the cotton that way; it will take from 30 to 60 days to get it.

The CHAIRMAN. Do you speculate on that as much as you would the futures market?

Senator DIAL. No; by no means. Now, if you will excuse me I will make a personal reference.

The CHAIRMAN. I am intensely interested in your argument.

Senator DIAL. I am painfully practical in my life, and am always trying to be. And I am not an expert cotton man at all.

The CHAIRMAN. You have had experience in dealing with cotton?

Senator DIAL. Yes, sir; I have handled cotton, and I have been president of the warehouse company for 20 years, and president of the bank in my town.

Now, Mr. Chairman, I was at home at election time, and a farmer came into the bank of which I am president, and he came into my office. I told him to sit down, and asked him what he wanted. He said, "I have got some money here, and I want you to count it out for me." He said, "I have just sold my cotton up at the mill, and I have the money for it, and I want you to count it for me." So I counted it for him. And I said, "What did you get for your cotton?" He said, "I got 20½ cents, but the man who sold just before me got 21 cents. But," he said, "after I had sold my cotton I went out to feed my mules, and the next fellow that came in and sold his cotton only got 20 cents for it."

Well, now, Mr. Chairman, why did that cotton fluctuate $5 a bale in less than one hour? Any man that knows anything about cotton will know that the intrinsic value of an article of that character would not have fluctuated $5 in one hour or less than an hour or that the value of it would have fluctuated anything like that. Why, that would be $60,000,000 on the crop of cotton that is raised in the South, and that fluctuation occurred in less than one hour. Now, I am not saying a word against the mill that bought that cotton. I am not blaming the mill. But I do say that the price of that cotton followed the future market tendency.

The CHAIRMAN. It followed the futures, and not the cash.

Senator DIAL. It followed the futures and not the cash; yes, sir.

Now, Mr. Chairman, in last July I went over to the Agricultural Department three or four times a day and had a great many conferences over there, and a great many of the experts were brought in and this matter was talked over. I said at that time, "I am not self-opinionated about this matter; I am not hard-boiled or anything of that sort, but I want an honest law, a law that will give a 50–50 deal between man and man. I do not ask any favors for the farmers. I want a law that is fair. I am not fighting the exchange. I am not fighting the mills. I am not fighting for any particular interest. But I do want a law that is fair between man and man and a law that will function practically."

And I presented my proposal. "Well," they said, "you will close the exchange." "Well," I said, "I am not going to close the exchange, and so far as I am concerned I don't care much whether the exchange is open or closed. If you have to pass a law to keep the exchange open, then the exchange had better close; that is the way I feel about it." And I said to those men in the Agricultural Department: "I have never played a game of cards in my life, but I do know enough about it to know that I would not want to play with marked cards. I would not want to play with a fellow who had his cards marked and who had his game won before we started to play. And if that is the situation, gentlemen, why, we had better stop that. I know it is not fair; I know that it is not honest."

Now, I have seen cotton fluctuate as much as possibly $50 a bale a month, or one-quarter of the value of the cotton.

Now, they have got a grade differential between the different grades of cotton which is absolutely unjust and which is robbery. I wrote a letter to the President last summer in reference to the War Finance Corporation and drew that to his attention. Ordinarily there is only about a 10 per cent difference. This last year there was a difference of $50 a bale in it. Take middling, that is the standard. The next grade under that ought to be a 10 per cent difference. But it was as much as $50 a bale. And yet you could not tell the difference between the cloth that is manufactured from those two grades to save your life. You could not tell which was made from the one or which was made from the other.

The CHAIRMAN. Now, if delivery was limited to the contract grade it would function as a hedge, would it not?

Senator DIAL. Yes, if you knew that it was contract grade. Now let me tell you what the law is on that.

The CHAIRMAN. Yes, Senator, I understand what the law is.

Senator DIAL. But the New York Cotton Exchange does not function that way. It is silent on that.

The CHAIRMAN. Just as you stated, 10 grades may be delivered.

Senator DIAL. Yes.

The CHAIRMAN. Now you had the fixed differences before they passed the law, but in your case you deal with the commercial differences, instead of fixed differences.

Senator DIAL. Yes.

The CHAIRMAN. So if a certain grade is delivered below the contract you get your discount on the actual commercial difference?

Senator DIAL. Yes.

The CHAIRMAN. You can sell that grade and buy the grade which you need, and you can unload it at the price paid, whereas if you received it under a fixed grade you would have to take it at whatever price it was tendered, and have to pay the difference, and as was stated yesterday in reference to wheat, that might be 5 cents a bushel.

Senator DIAL. Now I want a contract that is such that a man can demand delivery of what he bought.

The CHAIRMAN. You are for limiting the grades under the contract?

Senator DIAL. No, let your grades stay, your 10 grades.

The CHAIRMAN. Do you want to limit your grades deliverable under the contract to something near what is required in some particular mill?

Senator DIAL. I want the contract to be such so that the man selling the cotton does not have the option of tendering the purchaser all "dog-tail."

The CHAIRMAN. If the purchaser buys middling cotton you want it limited to middling, or one grade below or above, whichever it may be?

Senator DIAL. I want him to have the option of delivering one-half of the quantity under the contract in 2 grades, to be specified by him, out of the 10 grades. And I want the other man to have the option of selecting one-half of the quantity in 2 grades out of the 10 grades. But he must select it in 2 grades, because if you let him select it in 1 grade he would corner the market.

The CHAIRMAN. Do you not think that it would be fair to all concerned, if the contract was limited to the grade that the spinner desires?

Senator DIAL. That is the law now.

The CHAIRMAN. No, it is not the law now. He has got to take 1 of the 10.

Senator DIAL. That is the law, but the New York Cotton Exchange does not operate that way. It does not operate.

Mr. YOUNG. Can they not be forced to operate that way?

Senator DIAL. Well, I don't know why they do not. They use that as a gambling proposition. Now, you might just as well go out and gamble on peanuts, or gamble on what the weather is going to be next March as to hedge.

The CHAIRMAN. As it stands now, the buyer must take any of the 10 grades that are tendered?

Senator DIAL. Yes, sir.

The CHAIRMAN. It is optional with the seller.

Senator DIAL. The seller can spread it all out.

The CHAIRMAN. It is optional with him to deliver whatever he wants to deliver?

Senator DIAL. Yes.

The CHAIRMAN. And what you want, if you are a spinner, would be milling cotton. You would prefer the delivery of milling cotton, because that is the grade that you use?

Senator DIAL. Yes; I prefer milling cotton.

The CHAIRMAN. But on the cotton exchange you have to take anything that is tendered of the 10 grades?

Senator DIAL. Yes.

The CHAIRMAN. Before the passage of the bill there was no limit; the sky was the limit.

Senator DIAL. No; I don't know about that.

The CHAIRMAN. By manipulations. I am giving you statements that were made here. But we did in that act limit it to the 10 grades.

Senator DIAL. Yes.

The CHAIRMAN. Which was an improvement over the other.

Senator DIAL. I agree with you.

The CHAIRMAN. Now, then, in the grain exchanges we have no limit. In Chicago we have 23 grades; in Minneapolis we have 9; in Kansas City we have 9; in St. Louis we have 12. Of course, where 9 grades are deliverable, or one class of grain is deliverable on a contract it is much superior to the one where they have 23 grades, or including all the classes.

Senator DIAL. I should say it is much fairer.

The CHAIRMAN. Yes.

Senator DIAL. Well, I am coming on to that point in a minute.

The CHAIRMAN. You are, then, in favor of limiting the grades deliverable on the contract?

Senator DIAL. Yes.

The CHAIRMAN. That the buyer may have something that he really needs and intends to use in his business?

Senator DIAL. Well, the 10 grades are all right to me.

The CHAIRMAN. I think you are unreasonable about that as a buyer. I don't think that is fair to the seller.

Senator DIAL. I can not see that.

The CHAIRMAN. Well, you might select something that might not be available.

Senator DIAL. Then why let him deal in all the 10 grades? Let us make less grades.

The CHAIRMAN. I would suggest that he might deal in the 10 grades, but limit the number deliverable on contract, so that he might contract, for instance, if ne needs 7, for No. 7, and if he needs No. 2, let him contract for No. 2. But the contract grade should be something that would be somewhere near the particular grade.

Senator DIAL. The seller doesn't do that. In New York they do not do that.

The CHAIRMAN. You can compel them.

Senator DIAL. I am here asking you gentlemen for help on that.

The CHAIRMAN. They said they would not do business under the new arrangement limiting it to 10 grades, but they are operating as extensively as they ever did. And if you change that law and make only 5 of those grades deliverable under contract, they will operate exactly as they are now. But if you leave it to them to

deliver anything, of course they prefer to do that, that is natural, but the contract has no value as to the buyer.

Senator DIAL. All I want is a fair contract, and I want it to be equally divided between the buyer and the seller. It is not right for one man to have 10 options and for the other to have none. Now, I don't care about the 10 grades. Let them remain there. But let the buyer have the option of selecting one-half of the quantity but he must divide it between two grades. And let the seller select one-half of the quantity, but he also must divide it between two grades.

My good friend, Senator Comer, sent a letter to the Secretary of Agriculture, and that letter was sent around to all of you. In his letter he makes his position on this subject very clear.

The CHAIRMAN. I suggest that it be incorporated in the record.

Senator DIAL. I should like to leave this letter with the committee.

The CHAIRMAN. It may be filed in the record.

(The letter addressed to Hon. E. T. Meredith, Secretary of Agriculture, dated November 1, 1920, is herewith printed in full, as follows:)

BIRMINGHAM, ALA., *November 1, 1920.*

Hon. E. T. MEREDITH,
Secretary of Agriculture, Washington, D. C.

MY DEAR MR. MEREDITH: Yours of September 30, discussing at length the cotton-exchange bill and some proposed amendments to same, has been unanswered as I have been very busy with other matters.

Accepting your statement that the design of the cotton futures act and of the laws directing the control of same is to accomplish that the exchange quotations shall be a true index of cotton prices and the true servitor of business.

Also, accepting your statement that the exchanges have not so operated, that they have not been the true index of value and hence not the true insurance of business, and that the law has failed. I also note that you are studying a series of amendments to the Smith-Lever bill, which from the experience of your department will improve the accomplishments of said bill. Please allow me to suggest that you read my published statements and also my speeches in the Senate, calling attention to the great losses to cotton producers and cotton dealers by the nonfunctioning of the exchanges in their failure to be a true index of cotton prices, thereby failing to accomplish a vertible insurance on business. These statements are absolutely true.

Further, my criticism of the Agricultural Department, Bureau of Markets, that their administration of the original Smith-Lever bill and of the amendment to the Smith-Lever bill, both bill and amendment intended to accomplish the proper functioning of the exchanges, has been an absolute failure. This failure your letter of September 30 recognizes.

This conclusion, Mr. Meredith, was reached after careful study of the methods of the Bureau of Markets and years of experience with the results. A true price from 10 spot markets on 10 different grades and making a composite price from same, which composite price would represent the true differences in the market on tenderable grades is impossible and any proposition on the part of the Bureau of Markets that through these methods a trustworthy exchange value or trustworthy dealings on the exchanges can be accomplished is a vagary.

The fact that the exchanges carry 10 different grades of cotton, by law tenderable on a contract, the differential prices of the 10 grades to be secured by the Bureau of Markets from direct quotations on the different grades from 10 spot markets and from actual sales, gives to the exchanges the power to manipulate value, which makes trustworthy business, or insured business, impossible and gives the dealers on the exchanges at all times the power to manipulate, gamble, and swindle the market.

My proposed amendment that one-half of a contract sale would be middling and above, the other half at the seller's option, and that not less than 25 bales be in each tenderable grade would help the verity of the business and abate the gambling evil. but it will not accomplish what the law intends and what business and the trade demands and what the producer should have, and all of this is the contract price basis middling should function on the actual price of middling cotton.

The law, Mr. Meredith, should be amended limiting the contract to one grade, middling, and all unspecified business should comprehend only that grade, but let the law provide that any grade can be sold through the exchanges for any month's delivery but the grade must be individualized in the sale and restricted to one type for each sale. And provide further that in the event of a corner or squeeze on contract middling that settlement can be made on the cost of middling in the spot market plus the cost of delivery at point of sale, New York or New Orleans, plus a penalty of 25 points, and this, though not necessary, could be done with the other grades.

The legalizing of the sale of any grade through the exchanges will meet the demands for the representation of off-grade cotton and will give producer, dealer, consumer greater opportunity to get acquainted with the location and selling price of these grades without giving the opportunity as at present of using these grades as a means to gamble and destroy the entire cotton market.

Making middling the standard grade of commerce is just exactly like making No. 2 corn and No. 2 wheat the standard grades and also making gold the standard money of commerce. In these great commodities it is recognized that you can not standardize value with a multiple of commodities. As it is in wheat, corn, and money, so it is in cotton.

This amendment to the law would not increase the demand for middling or the spinning value of middling a penny. It would not decrease the value of any other grade a penny and it would certainly standardize the exchange price on cotton and make it function with the true market price.

Repeating again that the exchanges are not a clearing house or point of delivery for cotton, and that the trading on the exchanges never intends the delivery of actual cotton, the purpose is only to truly index the price and to truly insure business transactions on the exchanges, no matter who the party nor what the value.

So important is this question not only to that great section which raises the cotton and which depends so largely as to welfare on the price of cotton but also to the entire citizenship of America and to every interest everywhere that manufactures or deals in cotton, and consequently whose interest is largely based on a stabilized price for cotton, that I am sending copies of this letter to all the national legislators and to as much of the farming interest as I can, and trust that the next Congress will pass a bill which will effectually destroy every advantage which the law now gives to gamblers in marketing the greatest of national products.

With kind regards and best wishes.

Yours, very truly,

B. B. COMER.

Senator DIAL. And I also have a letter which he wrote me.

The CHAIRMAN. I suggest that all this be incorporated in the record.

(The letter addressed to Hon. N. B. Dial, January 8, 1921, is herewith printed in full, as follows:)

BIRMINGHAM, ALA., *January 8, 1921.*

Hon. N. B. DIAL,
United States Senate, Washington, D. C.

MY DEAR SENATOR: In the event you wish me to come before the Agricultural Committee, please have the Agricultural Department to furnish full list of type samples; I mean the 10 grades, and I will take them off your hands, paying for the same. I want to use them in explanation of the present method of multiplying combinations to make a tender costly to receive.

Don't fail to read that part of my letter to Mr. Meredith suggesting the best method of amending the law so as to get the best results. Senator, you can no more maintain a parity between the values of the different grades of cotton by trying to secure composite prices on the present method than you can maintain an exact parity between silver and gold. You have got to have a single standard in a matter so important as cotton pricing, letting every other value swing around that in supply and demand price.

With kind regards and best wishes,

Yours, very truly,

B. B. COMER.

Senator DIAL. His idea is that there ought to be but one grade; that is, middling.

Mr. YOUNG. He has changed his position on that. But now he wants it middling?

Senator DIAL. Yes, he wants but one. He said it is impossible to standardize 10 grades. He made a long argument on the subject when this matter was up for hearing, and I would suggest that this committee read carefully what he said on this subject. He is a man of great experience, having dealt in cotton for 15 years.

Now, here is a statement or analysis of the cotton situation by D. R. Coker, of Hartsville, S. C., director of the Federal reserve bank in Richmond and one of the biggest farmers in the South, and I would like to have your committee read Mr. Coker's statement of the cotton situation.

The CHAIRMAN. Without objection, it may be admitted.

(The statement presented by Senator Dial, appearing in The State, Columbia, Monday morning, January 10, 1921, is herewith printed in full, as follows:

NO FUTURE AHEAD FOR KING COTTON—COKER CO. DISCUSSES SITUATION FRANKLY—GET LITTLE RETURN—FARMER MERELY EKING OUT EXISTENCE UNDER PRESENT PRICES—TENANTS HIT HARD.

The following analysis of the cotton situation has been received by The State from the Coker Cotton Co., of Hartsville:

"As the staple situation has shown very little change since our letter of December 1, we thought that our customers might like to have us discuss the cost of the production of cotton and its relation to the present and future situation. We believe that few outside of the South, and by no means all in the South, realize the distressing features of the present situation or are able to diagnose their effect upon the civilization of the South and the future of the cotton industry. A brief consideration of facts, however, will promptly convince everyone interested in the industry, whether in the North or the South, that there is no future for it at present prices, and that a continuation of present conditions would threaten the civilization of the South.

"Government statistics show that the average production of lint cotton in the South is between one-third and four-tenths bales per acre, but in order to show how impossible the present situation is we are going to first discuss production figures under the ideal conditions of a bale per acre producing at 15 cents—a price above the present market.

"The bulk of the crop of the South is produced on a share crop system, the most popular share contract in this section being one under which the landowner furnished the land, buildings, planting, and fertilizer and the tenant furnishes the live stock, tools, and labor. Ginning and baling expenses are divided. Landlord and tenant divide the cotton equally, but the landlord receives all of the seed. Under this plan let us see what would be the returns to landlord and tenant on a 20-acre crop of cotton producing one bale per acre.

"AS TO ONE-HORSE FARM,

"The farm will contain about 30 acres, including a little woodland and a few acres of corn and other minor crops. If the land is good enough to produce a bale per acre, a fair valuation for the farm, including buildings, will be between $6,000 and $10,000. A minimum charge for rent on the cotton land, therefore, to cover interest, repairs, and taxes would be not less than $25 per acre. The landlord expecting a bale of cotton per acre would buy not less than $20 worth of fertilizer per acre for the cotton, and as he must exercise supervision over his croppers, a charge of $5 per acre for supervision should be made.

"The total of these expenses is $50 per acre. His returns will be one-half bale of cotton, at 15 cents, $37.50; seed, $10; total, $47.50; less one-half ginning, $3; net income, $44.50. These figures show a net loss to the landowner of $5.50 per acre. Some may object to the charging of rent and supervision to crop expenses. To this we answer that these are necessary preliminary expenses for crop production without which capital can not be secured.

"To make this crop the tenant furnished a mule and feed costing per year, $125; depreciation on implements, taxes, etc., $25; hire for picking 10 bales of cotton, $150; one-half ginning, $60; total $360, besides the labor of himself, wife, and three children.

"Receipts from 10 bales of cotton, at 15 cents per pound	$750
"Expenses besides labor of family	360
"Balance	390

"Divide this amount by 365 and you get the magnificent sum of $1.07 per day with which the tenant must purchase clothing, shoes, and household equipment and must supply a large part of the food for the family and besides must pay the doctor and the preacher if they are paid. It is true that the tenant raises some corn, a few vegetables, and sometimes has a pig or a few chickens. The pitiful poverty under which most of them live, however, keeps them moving from place to place, the average term of farm tenancy being about two years, and it is the exception rather than the rule for the tenant to have any live stock besides his mule, or any poultry.

"HAS POOR CHANCE.

"Please note that with cotton at 15 cents per pound $1.07 is the maximum amount that a tenant can receive for the labor of himself, his wife, and three children in producing the ideal yield of 1 bale of cotton per acre on 20 acres, and this is a larger acreage than the average one-horse crop in this section and must be further curtailed this year. The item for picking 10 bales is absolutely necessary for the tenant and his family can not gather more than half the crop in time to prevent serious deterioration of the grade.

"Please remember that the average production in the South is less than four-tenth bales per acre. The production in this State, however, for the past year has slightly exceeded one-half bale per acre. Based on one-half bale production, the tenant farmer's expenses would be reduced by the item of picking—$150, and half the ginning—$30, making his expenses $180 instead of $360. He would receive for his half share of 10 bales, $375, leaving $185, or 51 cents per day, for the sustenance of his family. But at least half the tenant farmers make less than one-half bale per acre in South Carolina or less than one-third per bale in the rest of the cotton belt except in North Carolina. How can these people keep body and soul together, much less maintain a decent standard of citizenship if cotton does not advance materially?

"During the years 1917, 1918, and 1919 we had a period of comparative prosperity in the South, during which both the landowner and tenant classes made more money than they ever dreamed of. Many, however, never having seen a $100 bill before, had no training in thrift and spent their money without thought of the morrow. Many are poorer citizens to-day than they would have been if we had not had this period of prosperity, for, having had a glimpse of financial heaven and being again plunged into the hell of abject poverty, they are naturally bitter and discouraged.

"ACREAGE REDUCTION.

"The only remedy for the present situation upon which all seem to be agreed is acreage reduction. Most cotton sections know no money crop except cotton. How can the landowner or tenant figure to keep body and soul together on a greatly reduced acreage of cotton, even if the present price is doubled? Yet they must somehow do this if better prices are to be hoped for.

"What the South needs is a steady price for cotton which will allow a fair return to the landowner and decent wages to the tenant. At the present costs of the commodities they must buy for crop-making purposes, 30 cents is, we believe, the lowest price which the industry should consider. Thirty cents will not pay the land-owner or tenant on the very restricted acreage that must be planted this year. It will give the tenant farmer producing a bale to the acre in 10 acres only a little over $1.50 per day for the support of his family, or about half of this if he makes a normal yield of one-half bale per acre.

"A few weeks ago the writer was talking with a banker from West Virginia who told him that he had just O. K'd a pay roll for a small coal mine and that the average daily pay of the laborers was over $17.40 per day, remarking that these laborers were working six hours per day, but that they were only employed 60 per cent of their time on account of car shortage. I have other evidence to show that the coal miners are receiving at least ten times as much as the cotton laborers, who are also paid far less than the laborers in the western wheat farms or in the mills of any section of the country.

"UNFAIRNESS TO FARMER.

"Every interest in the cotton trade should recognize the terrible unfairness of this situation and should refuse to consent to its continuance. Every southern interest is bending its energies to restore and maintain a price basis for our money crop which

will allow something besides a drear and miserable existence—that will allow us to build and maintain schools, churches, roads, and other facilities necessary to the maintenance of a decent civilization. Bankers, merchants, and professional men are cooperating heartily with the farmers to protect the basic industry of the South. This is not enough, however. The whole country is affected by the condition of every section. If the South is stricken with poverty its laborers will flock to the cities of the North and West and intensify their race and labor problems. If the Southern farm can not meet expenses for a long period the resulting financial chaos will affect all the money and trade centers of the country. If we do not receive sufficient money returns to support a decent civilization, the civilization of all sections will be affected.

"Large classes in the South have, except for brief periods, struggled along ever since the Confederate War in poverty so abject that decent food and clothes could not be optained. During the periods when cotton sold for 4½ cents to 8 cents many families had to live on 25 cents per day or less, and right now the prospect for many is no better than then.

"The understanding sympathy of the nation can not prevent terrific losses to the South nor remove the necessity for acreage reduction and other measures necessary to equalize the supply of the staple with the demand. A nation-wide and understanding sympathy, however, can and will make it easier for us to get the financial support necessary to tide over the present emergency and will protect us from the reerection of barriers to foreign trade without which the cotton farm can never thrive."

Mr. YOUNG. We all recognize the use of these cotton exchanges. In my country there is a strong sentiment against them; there are some big men down there who want them abolished. I myself at one time had that idea, but my ideas have changed. Have you thought, Senator, of what would happen should they be abolished in this country? Wouldn't the cotton industry of this country be left in a deplorable shape by virtue of the fact that they have such exchanges in England, the consuming section of the world? That is, wouldn't they have a power which they could use adversely to the interests of the people of this country?

Senator DIAL. Yes, if they used it. I used to think that they should be abolished, and sometimes when I see their manipulations I am disposed to think so yet. But I have no grudge. What I want is a fair law, and I have confidence in Congress, and I believe we will get a fair law.

Mr. HULINGS. Well, I don't quite understand you, Senator. You buy cotton. I come to you to deliver the cotton. It was to be of a certain grade.

Senator DIAL. No, it was not to be of a certain grade. It is to be within 10 grades.

Mr. HULINGS. No, but you bought it, and you wanted a certain grade, and I agree in the contract to deliver that grade, but with the right to deliver something else through 10 grades.

Senator DIAL. Yes.

Mr. HULINGS. Now, then, I deliver that to you. Under the contract and under the rules you can pay me less than the contract price for the differential that is between grades.

Senator DIAL. Yes.

Mr. HULINGS. But you have to take the same cotton, do you not? You can not compel me to go out some place and buy the kind of cotton that you want; that is, to buy half of it of a certain grade and the other half I can select as to what grade it should be.

Senator DIAL. No; I have to take what you tender me.

Mr. HULINGS. Well, then, how does that help you, so far as your mill is concerned?

Senator DIAL. Well, here is my mill; I have got something on hand that I do not want; I have got to pay storage on it, I have got

to pay brokerage on it. I have got to get rid of it. Now, what I am complaining about is not only that, but by that operation you depress the price of the whole crop downward. You hurt the grower, you understand. By reason of the fact that I know that I can not get what I want, I go and sell the contract. Therefore you have got more sellers than you have buyers, and you depress the whole industry downward.

Mr. HULINGS. It forces you on the market as a seller.

Senator DIAL. It forces me on the market as a seller, because I know you are going to give me something I can not use in my mill. I didn't know the law was so unjust, I didn't know the law was so unsound, and I don't see how it ever remained that way so long. I don't claim to be an expert—I am a lawyer—but I have studied the thing since I have come up here, and I believe that any contract that would allow one man 10 options and another man none would not be fair. Suppose, for example, I should sell you automobiles, and there was a differential between them, and I had an option of tendering you 10 different kinds of automobiles. Or, take any other business where one man could dump onto another man that which he did not want. Why, you would have to sell and pocket a loss.

Mr. HULINGS. Well, the evil of that is that you made that kind of a contract.

Senator DIAL. Well, it is true, but unfortunately the fact would be that the man, for example, who bought a secondhand automobile that he did not need, would think that he could sell it to somebody else at a profit, and so he would make that kind of a deal.

Now, gentlemen, it is our duty to make a just and a fair and an honest law. I was in New York on the fiftieth anniversary of the New York Cotton Exchange. I didn't know it at the time I came there, but a friend of mine took me to a luncheon, and during the luncheon a man made a speech in which he said that some southern Congressmen or Senators have been criticizing the futures contract, but, he said, they need not shake their finger at them, for it was a law that was made by Congress, that Congress had made that law, and that they had not made it. Well, I say it is our duty, gentlemen, to make a fair, a just, and an honest law.

Do you gentlemen have any questions?

Mr. WILSON. I gather from your remarks that you think that one of the greatest mistakes is in having so many different grades.

Senator DIAL. No; not in having so many grades, but allowing one man to select all of those grades, and compelling the other fellow to stand aside. In other words, allowing the seller to select all he wants of the 10 grades. The farmers have complained and said that we ought to have, maybe, 12 grades; that there is no market for their cotton under the 10 grades.

Mr. WILSON. What is the use of having so many grades if all grades of cotton, you might say, will produce about the same article?

Senator DIAL. No; they say it does not produce the same article.

Mr. WILSON. But you say it does?

Senator DIAL. No; I say there is not as great a difference as the present price indicates. Some grades will bleach better than others, you understand, and there will be different compositions. There

will be some foreign matter in the lower grades. The coarser the cotton, the more waste there is in it, and the operators don't like to handle it when there is so much waste, you see, for it will, naturally, cut down their pay. So the tendency is to spin the higher grade cotton. There is some difference, but it is nothing like the difference which at present obtains in the price, to my mind.

Now here is a beautiful illustration of this. Congress appropriated $50,000, and cloth was made out of these different grades of cotton, under the inspection of the Department of Commerce, and there are samples of this cloth which you can now see and inspect. You can see it unbleached and you can see it bleached, and a man who is not an expert can hardly tell the difference between the various grades. That is, take one grade of cotton; a piece of cloth was made from that grade, and then a piece of cloth was made from the next grade to it, and the man who is not an expert could not tell the difference between the two grades. Of course, when you take two pieces of cloth that are made out of widely separated grades you will see some difference; that is, you will see in the lower grades more kinks or lumps.

Now I don't object to the 10 grades. You see, it depends upon the season as to what kind of cotton the grower would want to grow. Possibly to cover the whole crop, or as nearly the whole crop as you can, there are 10 grades, and I have no kick against that. But I don't want one man, neither the buyer nor the seller, to have all the option, don't you see. I want the other man to have a fair chance at it. I want the thing to be half and half, that is the way I look at it. There is no mystery about this proposition at all. It is just like the illustration I gave you, of one man having the option of selling any one or all of 10 things to another, and the other man having no option but to accept what was tendered to him.

The CHAIRMAN. Senator, if it were made optional with the buyer to select all the grades, that would give him the same advantage which the seller now has over the buyer, wouldn't it?

Senator DIAL. No; let him select half.

The CHAIRMAN. Take this situation, for instance: There might be a limit of production in certain grades, and all the buyers would combine in demanding that particular grade.

Senator DIAL. Well, would anybody sell? He would be afraid to make the contract.

The CHAIRMAN. It would operate against the exchanges and close them, would it not?

Senator DIAL. I don't see that it is necessary to give one man the option of selecting the grades.

The CHAIRMAN. Would it not be fair that the contract specify the grade to be delivered on the contract?

Senator DIAL. I think you ought to do that. But they won't do that. Now we ought to make them do that. Congress ought to make them do it.

The CHAIRMAN. Would you be satisfied with that?

Senator DIAL. Yes, I would be satisfied with that.

The CHAIRMAN. If you limit it to that one grade it might be difficult for any one to deliver under that contract. Would it be fair to say that he could, under the contract, deliver either one grade below, or on grade above?

Senator DIAL. I have no objection to that, if you let the purchaser take one-half above and the seller take one-half below. Let them divide. I have no objection in the world to that.

The CHAIRMAN. Then we are practically agreed that there should be a limitation on the number of grades deliverable under a contract. But let them buy or sell any of the grades, but specify the grade deliverable under the contract, and then give them the option of one grade above or one grade below.

Senator DIAL. Very well. But I don't want the seller to have the option of tendering me all the grade below.

The CHAIRMAN. You want the buyer to have something to say about that. You want him to have an option also?

Senator DIAL. Yes.

The CHAIRMAN. As it is now the buyer has nothing to say.

Senator DIAL. Yes, and I don't think that is fair.

The CHAIRMAN. We are very grateful to you, Senator.

Mr. Scott of Grand Forks, N. Dak

STATEMENT OF MR. J. W. SCOTT, OF GRAND FORKS, N. DAK

Mr. SCOTT. Now, gentlemen, I have heard so much, and you have heard so much, on this question that anything I can say would have very little effect, and I would not impose upon you by taking up any of your time at all if it were not for the fact that I have come a long ways, having come clear from North Dakota, asking to be heard by this committee. And I would not insist upon being heard now, in fact I would go right back home if it were not for the fact that in the three days that I have been here there has not been a farmer who has appeared before this committee. I believe you will all bear me out with the statement that I am the only farmer that has appeared here.

Mr. MCLAUGHLIN of Michigan. Well, the committee is pleased to have you here, and will listen to anything you have to say, Mr. Scott.

Mr. SCOTT. Now, I have got but little to say, but I will be pleased to answer any questions that any of you gentlemen may put to me. But I want to say right at the start that as a farmer, as a grower of wheat, I believe that this futures trading is to the advantage and benefit of the farmer and the grower. I also have grown a lot of wool in North Dakota. We have no futures market in wool. When I have a crop of wool I don't know what it is worth. And I have got to find a buyer. I have got to go out and seek a buyer. While, if there was a market, such as there is for wheat, I would know just exactly what my wool is worth.

At the present time—and I guess you all know this—wool is not worth anything. Fortunately I sold out my sheep last year and haven't got any wool this year. But the growers of wool in North Dakota can not sell it, and it will be only a question of time, under the present laws and circumstances, when their wool will be entirely eaten up by expense of storage and insurance and other charges that are against it.

Now, in our country there is a great fault found by a great many farmers because of this great decline in wheat. It is all laid, gentlemen, to the chamber of commerce.

Now, in our country we do our business with the chamber of commerce in Minneapolis, and the farmers have been led to believe that these gamblers and these robbers in the chamber of commerce are responsible for this great depreciation in price. As one farmer I will say that I don't think so. And to bear out this opinion that I have got that they are not responsible for this great decline in wheat and other commodities in which they deal in futures, I will call your attention to the situation with regard to other commodities in which they do not deal. You all know, if you are familiar with country prices, that other products of the farm that they do not trade in, such as hogs, cattle, horses, sheep, potatoes—well, innumerable things that I could mention—have gone down much more than wheat. Take sheep, for instance. On my way down here I stopped off at St. Paul and went down to the yards. A commission man there told me that he had two carloads of sheep in the yard which he doubted very much if he could sell for enough to pay expenses. Now, they don't deal in hogs or sheep, nor do they deal in wool. They don't deal in hides, and hides have gone down twice as much as wheat has.

Now, you have listened to this talk so long, and I have too, that I am sure I am not doing any particular good in addressing you gentlemen, but I have come a long ways, as I said, and I would like to just express my own individual opinions, as a farmer, and I would be pleased to answer any questions that this committee, or any member of the committee, would want to ask me.

Mr. McLAUGHLIN of Michigan. In what place do you live, Mr. Scott?

Mr. SCOTT. I live on a farm in Grand Forks County, N. Dak A little village is on my farm called Gilby.

Mr. McLAUGHLIN of Michigan. How long have you lived there?

Mr. SCOTT. Forty years and over.

Mr. McLAUGHLIN of Michigan. Have you been farming all that time?

Mr. SCOTT. Yes, sir.

Mr. McLAUGHLIN of Michigan. How large a place have you?

Mr. SCOTT. At the present time I have a little over a thousand acres.

Mr. McLAUGHLIN of Michigan. And what crops do you raise on your farm, Mr. Scott?

Mr. SCOTT. Well, our crops are all the grain crops that are grown in the North, and for a good many years I have been raising wool.

Now, when I was coming away I put in my grip a copy of a farm paper published in St. Paul, Minn., and if you gentlemen wish to pass this paper around you will see the pictures of some scenes on my farm which were taken for the purpose of illustrating an article that was written in that paper. There you will see my residence, and my barns—not all of my barns, but my sheep barns—and there you will find a write up on "Forty years of farming in North Dakota." And I might further say, gentlemen, that I have raised 50 crops of wheat. You will see by the color of my hair and the thinness of it that I have been on earth quite a little while.

Mr. RIDDICK. Are you connected in any way with any elevator company?

Mr. SCOTT. No, sir; absolutely none. I am a farmer and am not connected with any elevator company.

Mr. McLAUGHLIN of Michigan. This is an article appearing in a paper called The Journal of Agriculture, published in St. Paul, Minn. The article is entitled: "Forty years of farming, involving the old story of a man who raised wheat for 20 years, and a newer story of the same man who changed to a progressive and successful system of diversified farming."

Mr. SCOTT. Now, if you will kindly pass that around to the committee it will give them a little idea of what I have been doing.

I might say further, gentlemen, that when I went to North Dakota I went 50 miles from a railroad to locate on a homestead, and I live on the same homestead now. There was not a tree within 10 miles of that house when I located there, but I planted the trees that you see in that picture, and they have all grown up since the time I came to that place.

The CHAIRMAN. In which direction are you from Grand Forks, Mr. Scott?

Mr. SCOTT. Northwest of Grand Forks, on the Northern Pacific Railway.

The CHAIRMAN. Near Grafton?

Mr. SCOTT. Between Grafton and Grand Forks, a little town called Gilby. That little village is on my farm.

Mr. McLAUGHLIN, of Michigan. Mr. Scott, you have mentioned certain farm products, including live stock, the prices of which have fluctuated and have been more greatly reduced than has been the case with wheat. And you have called attention to the fact that the fluctuation and reduction of prices of those things have occurred notwithstanding the fact that they are not dealt in on boards of trade. But we are told here that the price of one product is influenced, and to some extent determined, by the price of another farm product. Do you think that the price of wool or the price of live stock is determined or largely influenced by the price of wheat?

Mr. SCOTT. No; I don't think so. I don't think the price of those things is determined by the price of wheat.

Mr. McLAUGHLIN, of Michigan. In your opinion, then, the fact that wheat is dealt in, bought and sold on the exchange, speculated in and manipulated, has not influenced the price of these farm products that have not been dealt in at all?

Mr. SCOTT. Possibly, to some extent, but I don't think to any great extent. In our country, in the Red River Valley, we raise immense quantities of potatoes. Now, they have gone down much more than wheat has, and the market is a good deal more unstable. It varies more from place to place, according to the buyer's or seller's buying or selling capacity, much more than wheat has varied.

Flax is another commodity which we raise a great deal of in North Dakota. North Dakota is the largest flax-producing State in the Union. Now, flax has gone down twice as much as wheat has.

Mr. McLAUGHLIN, of Michigan. Are you familiar with the methods of business of the exchanges at Minneapolis and Duluth?

Mr. SCOTT. Yes, sir; I am very familiar with their methods of business.

Mr. McLAUGHLIN, of Michigan. Well, you have heard as you have sat in this room here listening to the testimony, as the committee has, statements to the effect that there are abuses, evil practices, if we

might so call them, that are indulged in. Has that been your observation?

Mr. SCOTT. Not in recent years; no. I think that the exchanges have tried to eliminate all the abuses, and that they have succeeded.

Now, as I say, concerning the Minneapolis Exchange—Chamber of Commerce, as it is called—in my judgment there is no fairer way, as far as the farmer is concerned, of dealing with his grain. There is no place where the farmer can get the justice and where he can get whatever his grain is worth so well as he can in the exchange, or the chamber of commerce, because of the fact that they trade there in actual wheat by sample. Now, in Duluth the only trade is in grade wheat; it is sold entirely by grade. Now, I have had no-grade wheat sold for within 1 cent of No. 1 Northern wheat on the floor of the chamber of commerce.

Mr. MCLAUGHLIN, of Michigan. Have you any suggestion to make to this committee in regard to legislation? Do you think there is any legislation relating to this matter that we might properly take up and put into law?

Mr. SCOTT. Well, now, as an individual I haven't got anything to suggest, but I do believe that these bills before Congress, such as I have read here and heard discussed, will be very detrimental to the farmers of North Dakota, to the wheat growers, or the flax growers, and those are our two principal cash crops.

Mr. MCLAUGHLIN, of Michigan. What do the others in your part of the country say about it?

Mr. SCOTT. We are greatly divided. I presume the gentlemen present all know something about the political conditions in North Dakota. We have there what is known as and called a Nonpartisan League. This Nonpartisan League has a widely circulating press, in fact, every man who joins the Nonpartisan League gets about three papers; two weeklies and one daily. Those papers have educated, in the last month particularly, the farmers up there, or some of them, to the belief that these gamblers—they don't call them anything else but gamblers—are responsible for this great depression in the price of farm products. But as I say, we are divided to some extent along those lines; that is, the farmers of North Dakota.

Mr. MCLAUGHLIN, of Michigan. You find that a portion of your farmers believe those papers, and a portion of them do not?

Mr. SCOTT. Yes. I might say that a great majority of the farmers that have joined this league, reading nothing else but these statements made by this Nonpartisan press, believe thoroughly and honestly that these gamblers are responsible for the present situation.

Mr. MCLAUGHLIN, of Michigan. Some one has said here that he has never seen a well informed man who objected seriously to the boards of trade. What has been your experience? Is there objection to or approval of the boards of trade by men who are informed of actual conditions?

Mr. SCOTT. My judgment is that they do not object to them. My experience with the larger farmers who grow large quantities of grain, who have had large experience as farmers, who have shipped their own grain, who have, to some extent, speculated or sold or bought for future delivery, is that those men do not condemn the present system. Is that a satisfactory answer?

Mr. McLAUGHLIN, of Michigan. Yes. Well, there are organizations in your part of the country—cooperative and otherwise—that have elevators and deal in grain.

Mr. SCOTT. Yes, sir; there are many of them in our part of the country.

Mr. McLAUGHLIN, of Michigan. Do you know that some of them have dealings on the board of trade and some do not?

Mr. SCOTT. Yes, sir.

Mr. McLAUGHLIN, of Michigan. What is your information as to the measure of success reached by these different organizations? Are those that deal on the exchanges more successful than the others, or are those who do not deal on the exchanges more successful than those who do?

Mr. SCOTT. Well, sir, I will tell you this, that they have all been very successful in recent years, and as you know, there has been an upward market. A man buying the actual wheat could hardly lose all because the market has advanced. And while I don't know, I anticipate that there are going to be a lot of those cooperative institutions that are going to lose a lot of money on this crop if conditions do not change and if the price of wheat does not advance. They have bought wheat at the high price and have carried it down without hedging—that is, those who do not believe in it.

Now, I know of elevators in our county that are pretty nearly full of wheat, that are in that condition, and I know that they are going to lose a lot of money unless the market goes up to somewhere near what it was last fall.

I might say right here—not in answer to any question, but because it has just come to my mind—that while we were thrashing our wheat the prices were very high, as I saw it; that is, so high that I sold my wheat daily from the thrashing machine, because I expected the price to drop. And until all the thrashing was done and every machine in my section of the State was laid up, wheat was over $2.50 a bushel. But this propaganda of $3 wheat had been widely advertised, and particularly through this Nonpartisan League press, and it induced many farmers to hold their wheat for higher prices, and in the last statement that I saw from our agricultural department in our State—and that is six weeks ago, possibly—it was estimated that 80 per cent of the wheat in North Dakota was in the farmers' hands.

In my own vicinity I think that 75 per cent of the wheat was sold. In my particular locality, at least, it was sold, because I was selling, and I advised my neighbors, and urged them, to sell, showing them this fact, that December wheat was 30 to 35 cents less than cash wheat. If they were going to carry the wheat, the thing to do, if they were going to speculate, was to sell their cash wheat and buy the December futures. But, as I say, conditions appeared to me to be such that the prices would not stay up. I did not expect, and never have expected, that we could continue to have war prices for many years after the war was over. I was not too young at the close of the Civil War, and I am not too old to-day, to remember what happened after that war, and many of the old men will remember those things. Mr. Chairman, your gray hairs would indicate that you, perhaps, remember some of those things.

The CHAIRMAN. I don't remember very much about the Civil War.

Mr. SCOTT. Well, but you do remember the conditions after the war.

The CHAIRMAN. Yes, indeed.

Mr. SCOTT. Now, after the Civil War prices went down. I lived over in Wisconsin at that time, and I remember how wheat came down. I guess they paid as high as $2.40 or $2.50, and it went down to 70 cents in a shorter time than this present price decline.

The CHAIRMAN. I remember that our neighbor sold his wheat for $2.50 at that time.

Mr. MCLAUGHLIN of Michigan. But you say these men in your part of the country, as a general thing, have been getting along just as well whether they had dealings with the boards of trade or not?

Mr. SCOTT. Of recent years they have, I say.

Mr. MCLAUGHLIN of Michigan. In recent years?

Mr. SCOTT. Yes. Well, don't you know that they couldn't deal in futures on wheat in recent years?

Mr. MCLAUGHLIN of Michigan. That is during the war. That was prohibited during the war.

Mr. SCOTT. During the war, yes, they couldn't deal in futures. And in my judgment the stoppage of the dealing in futures in wheat was detrimental to the farmers during the war. I think our wheat would have gone to possibly $5 a bushel had there been dealings in futures, had the market not been restricted. I also think that my wool, and every other farmer's wool, would have gone to $1 a pound. It did during the Civil War, and I think it would have done so at this time also.

Mr. MCLAUGHLIN of Michigan. Well, this committee had something to do with the food control act. And it approved the idea of the guaranteed minimum price of wheat. The Government was urging large production. No one knew what the prices would be. No one knew how long the war would last. And as a measure of safety to the farmers it was suggested that the Government should make a guarantee that the price of wheat should not go below $2 a bushel, and that the price should be what the President might determine it should be, but not less than $2 a bushel. That was intended as a guarantee of the minimum price of wheat. When the Grain Corporation took hold, it immediately made the price that the President fixed under that law the maximum price, a thing that never was contemplated by those who suggested or those who were responsible for writing or putting through the law.

Mr. SCOTT. Now my memory would not bear out that statement that that was the maximum price, or that there was a maximum price.

Mr. MCLAUGHLIN of Michigan. The law was passed to the effect that the Government would guarantee that it would not go below $2.

Mr. SCOTT. Sure, $2.20.

Mr. MCLAUGHLIN of Michigan. No, I beg your pardon, $2. And authorizing the President to determine what price it should be It authorized the President to determine what the price of wheat should be, but that he could not put it less than $2. He assembled the board, and they advised him that $2.20 was the right price, and he fixed it at $2.20, and that $2.20 was practically made the maximum as well as the minimum price.

Mr. SCOTT. Well, I think it was, but I never sold any wheat as low as the fixed price during the war, and I sold every year right from the thrashing machine.

Mr. MCLAUGHLIN of Michigan. If you sold it to a miller and he paid more than $2.20, having regard to the freight, etc., that miller was penalized by the Grain Corporation.

Mr. SCOTT. Well, I sold it to elevators in the usual method that we had pursued in the past. I sold it at $2.20, Mr. Congressman. That was the price fixed at Minneapolis. That would make our price around $2 a bushel. I never sold any wheat as low as $2 a bushel during the war.

The CHAIRMAN. It would not cost 20 cents to ship it, would it?

Mr. SCOTT. Yes, it costs us that much to ship it now.

The CHAIRMAN. From Grand Forks to Minneapolis?

Mr. SCOTT. Yes, that is what it costs. Now I think the elevators have a spread of about 30 cents.

The CHAIRMAN. The freight rates were about 11 cents, were they not, before the war?

Mr. SCOTT. Well, before the war they were only 12 cents a hundred.

The CHAIRMAN. During the war it would be less than 11 cents a bushel, would it not?

Mr. SCOTT. Yes, but this fall I shipped a couple of cars of wheat, and the cost was 20 cents.

The CHAIRMAN. A hundred?

Mr. SCOTT. No, a bushel. The freight rate, I think, is 20½ cents a hundred from our station.

The CHAIRMAN. What were the freight rates before the war?

Mr. SCOTT. Twelve and a half cents a hundred.

The CHAIRMAN. And they were increased to 20½ cents?

Mr. SCOTT. Yes. Now that is my recollection. I am very certain of that, also.

The CHAIRMAN. My understanding was that they deducted 11 cents below the Minneapolis market before the war, 11 cents covering the freight charges.

Mr. SCOTT. I was in the habit of selling my wheat every year at the elevator, before the war, at 10 cents less than the Minneapolis or Duluth market, whichever one was the highest. I had my option where to sell, and I patronized our local elevators. This year they wanted to buy on such a spread and at such a price that I would not sell to them; and I shipped my wheat. I loaded one car of wheat, got the wheat out in the car, and then I sold it to the elevator agent at my price—not at his price, $2.40 a bushel—and he had made as his first offer to me a price of $2.25. But when I loaded it on the car to ship out, he bought it at my price.

The CHAIRMAN. According to that, with the $2.20 price fixed at Minneapolis, you would be selling your wheat at $2.10. Did you receive $2.10 for your wheat?

Mr. SCOTT. Yes; I never sold any as low as that.

The CHAIRMAN. What were you receiving?

Mr. SCOTT. I remember distinctly selling almost my entire crop to the elevator for $2.25 that very year that the price was fixed.

Mr. VOIGT. What time in the year?

Mr. SCOTT. Right at the thrashing time. I sell every year, and have done so for fifty years, whenever I could sell, right from the thrashing machine.

The CHAIRMAN. Would you say that if they had been permitted to operate in futures the price might have gone to $5?

Mr. SCOTT. Yes; I think so. But of course that is only a guess. But that is my opinion.

The CHAIRMAN. That can not be credited up to the futures?

Mr. SCOTT. No; I don't think so.

The CHAIRMAN. What kept your price down was the taking over of control of fixing the price by the purchasing agency?

Mr. SCOTT. Yes. And I want to say right here that I was in sympathy with that fixed price, and that I was very, very well satisfied, and that I said many times that it looked good to me, and I would like to continue to raise wheat anywhere around that price.

The CHAIRMAN. Are you satisfied in fixing the price of an article at $2.25 when it is worth $5? Do you think that is a fair proposition? Now that is exactly what was done. As stated by Mr. McLaughlin, the minimum price was made the maximum. In your instance it exceeded that by about 15 cents.

Mr SCOTT. Well, I will tell you, as far as my memory goes, we never had a maximum, but we did have the minimum.

Mr. MCLAUGHLIN of Michigan. Yes; they made it a maximum, Mr. Scott.

The CHAIRMAN. Now, when wheat was worth $5, do you think it was fair to make the price $2.20?

Mr. SCOTT. It was not fair to the woolgrower, and it was not fair to the wheat grower, to fix the price of his commodity and let other commodities soar with the sky as the limit.

The CHAIRMAN. About the time that Mr. Hoover made the statement that he believed it would go to $7 a bushel, the price then was $3.45.

Mr. SCOTT. Yes, sir.

The CHAIRMAN. The minimum price was fixed at $2.20. And the bill also provided for a commission, and the commission reported the price at $2.20, as I recall it.

Mr. SCOTT. Yes.

The CHAIRMAN. In other words, fixing the minimum price less than the estimated price suggested by Mr. Hoover and the rest of them. And then do you think it was fair to make that minimum price the maximum?

Mr. SCOTT. No, sir; I do not, and I never did think so.

Mr. MCLAUGHLIN of Michigan. The fact is that just about the very day that the $2.20 was fixed as the price, wheat sold on exchange in Chicago at $3.45.

Mr. SCOTT. Yes, sir; it did; that is right.

The CHAIRMAN. Let me correct my statement. Congress fixed it at $2, and provided for a commission and the Commission reported for $2.20.

Mr. MCLAUGHLIN of Michigan. My recollection is that they reported $2.20 the first year and $2.26 the next year.

The CHAIRMAN. That was owing to the increase in rate. There was an increase in freight of 6 cents.

Mr. RIDDICK. North Dakota, as I understand it, is largely a one-crop State—that is, it is largely a wheat State?

Mr. SCOTT. Yes, sir.

Mr. RIDDICK. I am told that when Mr. Townley began the organization of the Nonpartisan League in that State he found a fertile field because of the dissatisfaction of the North Dakota farmers over the treatment they were receiving from the grain buyers, particularly at Minneapolis. Is that true?

Mr. SCOTT. Yes, to some extent I think that is true.

Mr. RIDDICK. Now, what are the complaints that the North Dakota farmers have to register against the Minneapolis grain dealers? What are the evils they objected to?

Mr. SCOTT. As I saw it, the farmers did not have so great a complaint, but this little complaint that some farmers had was greatly magnified by these men who came into the State with their propaganda and their speeches and their press. By their propaganda they made the farmers think that they had a great complaint against the Minneapolis people. Now, those of you who are familiar with this situation have probably read what Mr. Townley is doing in Kansas; he is trying to do the same thing in Kansas that he did up there. He is engaged in that work there to-day.

Mr. RIDDICK. Just what are the complaints that are being made? What are the evils that are pointed out?

Mr. SCOTT. Well, there was some complaint as to grades and dockage, and our Nonpartisan representatives have made grades and regulated dockage. That is, they have said to the elevators, "You must pay for this dockage." But as an individual farmer I have never raised any wheat that had sufficient dockage in it to get any pay for the dockage. It takes 3 per cent, I think, in order to get pay for it.

Mr. RIDDICK. Does the Nonpartisan League want the futures trading done away with?

Mr. SCOTT. I think so. Their press would indicate it; yes.

Mr. RIDDICK. Does it offer any other plan?

Mr. SCOTT. No, sir; nothing.

Mr. RIDDICK. Why does the Nonpartisan League want the futures trading done away with?

Mr. SCOTT. Well, you would have to get some of Townley's organizers to tell you that. I couldn't tell you.

Mr. RIDDICK. You have heard no legitimate reasons offered for that in North Dakota?

Mr. SCOTT. No, sir; I have not. They have made grades up there and have got a State grade inspector and deputy State grade inspector, and in my judgment they are just a useless bunch of men to be paid by the farmer, by the taxation of the farmers of North Dakota. They are of absolutely no benefit to the farmer, because he has got to take the grade and the price that is established at Duluth or Minneapolis. Those are our two terminals where we sell our grain. And they can make any old grade they are minded to in North Dakota. They won't affect the prices. The elevator may pay the North Dakota grade, but they have got to sell it on this other grade and they are not going to buy wheat at a higher price than they can sell it for. Well, they might at a higher price, but they are going to make the grade and the price correspond. They can not do business at a loss. So in my judgment it has all been detrimental to the farmer.

Mr. RIDDICK. Is it true that the Nonpartisan League papers recommend to its membership to hold its wheat?

Mr. SCOTT. Yes; absolutely. I have got a paper in my grip over at my hotel that I can show you, where it shows that the farmer members of the league did hold their wheat, which they otherwise probably would have sold. Yes, sir; they held five bushels of wheat, in my judgment, where the anti-Townley people held one.

Mr. RIDDICK. Then, as a matter of fact, their advice caused their members to lose an immense amount of money?

Mr. SCOTT. Yes; their advice caused their members to lose many, many dollars in North Dakota.

The CHAIRMAN. If they were to cash their wheat to-day what would be the loss?

Mr. SCOTT. About a dollar a bushel.

The CHAIRMAN. By reason of holding it?

Mr. SCOTT. By reason of holding it.

The CHAIRMAN. Their loss would be a dollar a bushel by reason of holding it at the suggestion or recommendation of the Nonpartisan League?

Mr. SCOTT. Yes. The deputy inspector also advised the farmers by letter to hold that wheat.

Mr. MCLAUGHLIN of Michigan. The deputy inspector?

Mr. SCOTT. Yes.

Mr. MCLAUGHLIN of Michigan. By whom was this deputy inspector employed?

Mr. SCOTT. By the State inspector, Dr. Ladd, whom you will get acquainted with here in the next six years.

Mr. MCLAUGHLIN of Michigan. He is the newly elected Senator from North Dakota who is to take Senator Gronna's place?

Mr. SCOTT. Yes.

Mr. MCLAUGHLIN of Michigan. Well, we all know Senator Gronna very well indeed. I don't know Dr. Ladd. But he will have to be a very good man if he comes up to Senator Gronna's standard, in my estimation.

Mr. SCOTT. Well, I don't believe he will. But he has got some very pronounced views. He thinks that the price of wheat can be fixed by the farmers at the cost of production plus a profit. Now, that has been propaganda in their papers. If you will excuse me, gentlemen, for asking you a question, I would like to ask if you have read Senator Ladd's platform that was published in the press?

Mr. MCLAUGHLIN of Michigan. I think I did, and I read a portion of a speech that he delivered at some agricultural association meeting since his election.

Mr. SCOTT. Well then, if you have, you have got a pretty good idea of some of the things that he thinks can be accomplished by legislation.

Mr. MCLAUGHLIN of Michigan. That cost of production, which should be the basic price, is to be determined by the Government.

Mr. SCOTT. Well, sir; I don't know how he is going to do that. I can't tell about that.

Mr. MCLAUGHLIN of Michigan. Well, that is their idea.

Mr. SCOTT. That is their idea, yes, sir; or by the farm bureaus, by some organization.

Mr. McLAUGHLIN of Michigan. And there should be some kind of guarantee that the raiser of wheat should be able to receive at least that basic price.

Mr. SCOTT. Yes, sir; that is it, as I undertsand it.

Mr. McLAUGHLIN of Michigan. There are bills before this committee advocating in effect that the Government shall fix a guaranteed price on all farm products, and that at a given time in the year all that have not passed into the hands of the consumers shall be taken over by the Government at that price.

Mr. SCOTT. Yes; I understand so.

Mr. McLAUGHLIN of Michigan. Would you advise the committee to make a favorable report on such a bill as that?

Mr. SCOTT. Well, it would not conform with my judgment at all, sir.

The CHAIRMAN. Mr. Carlson of Ambrose, North Dakota stated yesterday that under that plan, in case of a dispute the farmer would be compelled to accept the findings of the Fargo board, whatever they may be. And that the shipper accepts of the findings of the Minneapolis board. Do you approve of that plan?

Mr. SCOTT. Well, now, I don't know enough about it, sir; to say as to that.

The CHAIRMAN. That is, that the Fargo Board fixes the grade, and of course, the grade fixes the price, and the shipper, of course, has to accept the findings at Minneapolis. In your opinion does that work out satisfactorily?

Mr. SCOTT. We have to accept of the national grade at Minneapolis.

The CHAIRMAN. Yes; and in North Dakota you have to accept of the Fargo grade in case of dispute?

Mr. SCOTT. Well, in my judgment and from my observation they pay but little attention to the North Dakota grade.

The CHAIRMAN. Do you state positively that the Nonpartisan League is opposed to futures trading?

Mr. SCOTT. Why I think so.

The CHAIRMAN. This Committee is not so fortunate as to have heard any suggestion from the Nonpartisan League in regard to this legislation or any other legislation.

Mr. SCOTT. Well, apparently they have not made any suggestions. I don't know that they have, and they are not here now. They have got no representative that I have heard or seen here.

The CHAIRMAN. It would seem that if the Nonpartisan League is vitally interested in the welfare of the farmers, or particularly in this legislation, it would be on hand and give the committee that deals with these matters the benefit of its views.

Mr. SCOTT. Shall I answer your question just according to my own opinion?

The CHAIRMAN. I would be very glad to have you give your views in the matter, Mr. Scott.

Mr. SCOTT. I don't believe the Nonpartisan League wants any legislation. What the Nonpartisan League wants is an issue to hold up before the farmer all the time to keep him so he will stick. You know they have a slogan, "We will stick," and the members of the league wore a button, most all of them did, with those words on it, "We will stick and we will win." Now, that is what the leaders of the Nonpartisan League want, in my judgment.

Mr. McLAUGHLIN of Michigan. I remember a number of years ago when they were framing a tariff bill here there was some gentleman who was very active and having a great deal to say, and one Member of the House said, "Just what is it that you gentlemen want? What are you trying to do?" One of them said, "Why, I don't know anything about the tariff. We are just trying to raise hell." That is not simply a story, but that is what actually occurred.

Mr. SCOTT. Mr. Townley and his bunch are after the farmers' money, and they want to keep an issue before them just as long as they can get their money. They never got any of mine, and I am very pleased to say that in the township in which I live, which is one of the best in North Dakota, three-fourths of the farmers are opposed to this league. Well, I should not say three-fourths, perhaps.

As a matter of fact, we beat them about three to one in the election. But I should say about four-fifths of the tax-paying ability in the county is against this farmers' program. We call it "Townley's program." I am drifting quite a long ways from what I came here to say, but you gentlemen have brought it out. I don't talk North Dakota politics at all.

The CHAIRMAN. I didn't raise the question for that purpose.

Mr. SCOTT. No.

The CHAIRMAN. I have no expression to give as to the merits or demerits of any political organization, but it does occur to me that if these people represent the farmers, as they claim to do, that they should take enough interest in it, if they are going to be of service to the farmers, so as to make their views and their issues known before the legislative body.

Mr. SCOTT. When the Price Fixing Commission was in session, there were none of the league farmers or representatives here to come before that committee or try to get as good a price for the farmers of North Dakota as they could. They didn't appear here at all. But a committee that did not represent anybody, that paid their own fares and expenses down here, a committee of leading farmers of the State, of the largest farmers we have got in North Dakota, were here to try to influence that committee to give us a price of at least cost of production. And they succeeded in raising that price. I think the Congressman knows something about that, and so do you, Mr. Chairman.

The CHAIRMAN. It seems to me that those who accept of the tax, or whatever you might call it—membership fee—and represent to the farmers that they are really working for their interest, should at least present their views to legislative bodies, so that those who legislate might have the benefit of their views and findings.

Mr. SCOTT. Well, I guess they are not doing it. I haven't seen any of them here.

The CHAIRMAN. And unfortunately, so far I do not know, directly or indirectly, of any organization that has come before this committee with any definite proposition, and it seems to me that they might pay more attention to it, and it would prove beneficial to all concerned.

We thank you very much, Mr. Scott, for what you have had to say.

We will next hear from Mr. Arneson.

STATEMENT OF MR. SEVER ARNESON, NEW EFFINGTON, S. DAK.

Mr. ARNESON. Well, Mr. Chairman, there has been so much said, and I have heard so much while I have been here, that I am sure I could not state what I would have to say in any better way than has already been said. But I will make a few remarks as to the reasons for my coming here.

I got a letter about two weeks ago from our commission firm outlining this meeting here. I was very careful in arranging to come here. I called the directors of the Farmers' Elevator of New Effington together, and showed them the letter, and explained to them about the hedging part of the business. And we had them all there together and discussed this matter. I told them of the way that I was doing business; that when I bought, that I sold, and I figured that I never speculated. I have been a small buyer, but I have been a successful buyer; as long as I have been in the business I have made good, as far as running the business is concerned.

Now, I work in this way. Whenever I buy a thousand I sell it. Now, I have shipped out a lot of stored wheat this year. I have carried it in the elevator at an average of 10,000 bushels for over a year, and I have had to ship out a lot of stored wheat this year. That was stored in the elevator during the war prices a year ago. In order to make room this fall, when the movement started, I had to get out the stored wheat. Well, of course, when I shipped that out I bought against it, but if I had speculated I would have made money by letting it go. But I buy the same way as I sell.

Now, I talked this matter over with the directors of the Farmers' Elevator, and they all seemed to agree with me that it would possibly be a good idea for me to come down here. The commission people that wrote us the letter are financing our business. In fact, there are two firms that we deal with. Now, the directors finally decided, after I had explained everything about the letter, had explained everything about this whole matter, that I ought to be sent as a representative down here to Washington, because they favored the hedging part of the business.

Now, that is what I wanted to say, gentlemen, and that is about as clear a statement as I can make to you on this matter.

The CHAIRMAN. These commission men finance you, and you are therefore interested in their business. Your success is dependent upon them?

Mr. ARNESON. Yes, but to safeguard myself, I did not come here without calling together the board and outlining to them the proposition. I did this so I might know what their sentiments were.

The CHAIRMAN. And taking it up with the directors of your elevator, it was decided by them that you had better come down here?

Mr. ARNESON. Yes, sir.

The CHAIRMAN. And you are here to tell us about your transactions, and you consider it to your advantage to hedge?

Mr. ARNESON. Yes, I always did. I have been in the business for 22 years, and I don't think I have carried over a thousand bushels, either long or short, in twenty years; I am just that close a hedger. I never was nervous in the grain business excepting last year. I very nearly broke down, because I sat with the elevator full to the roof,

and our situation in our country last year was not so that we could sell it to arrive, which you could during the war, you know, if you had a certain grain. But our grain was poor, shrunken, graded three and four, and to sell three and four wheat to arrive, you would have to have a sample exactly to represent. So we could not do that.

During the time preceding the slump we had made big money, but during the big slump which came a year ago we lost about $4,000 because we had no way of hedging ourselves, and couldn't get any cars to load out our grain. And for that reason I am of the opinion that hedging is the greatest insurance for any elevator man, in existence.

Mr. SCOTT. By permission of the chairman, I want to ask a question. This ten thousand bushels of stored wheat that you carried over could have been sold for how much a bushel?

Mr. ARNESON. For $3.10.

Mr. SCOTT. And those farmers have got it yet, haven't they?

Mr. ARNESON. Yes. I have got two farmers who live right across the border in North Dakota, who each have got a thousand bushels in there, and they have had that wheat in my elevator for a year, and the day that they got through hauling I offered them $3.10 for it, but they wanted more, and I couldn't take it. I still have got that wheat, and they tell me now that they will sell when I come up to $3.

The speaker who preceded me was talking something about the Nonpartisan League, and I can not help but agree with him in a good many things, because I have got one Nonpartisan man on the board of directors with me, and he is the only one that we have fights with.

Mr. MCLAUGHLIN of Michigan. What is it you say in regard to this Nonpartisan League man?

Mr. ARNESON I say that he is the only one that has got a kick coming for everything. He kicks on everything. There is nothing right for him. "The gamblers get it all," that is what he says.

Mr. MCLAUGHLIN of Michigan. Does he approve your course in hedging?

Mr. ARNESON. Yes, sir, he does approve that. They have been very lenient with me; they have left everything to me.

Mr. MCLAUGHLIN of Michigan. Well, does this particular man agree with you, and in the past has he agreed with your views, with your course of action?

Mr. ARNESON. Yes, he has, in my end of the business. But he is a hard man to deal with when he has got something to sell. But in the business of the elevator we have gotten along very well.

Mr. MCLAUGHLIN of Michigan. Did he approve of your coming here?

Mr. ARNESON. Yes, sir; he did.

Mr. MCLAUGHLIN of Michigan. You spoke of this company that financed your elevator, that is furnishing money for you to carry on your business operations. You don't mean that they financed this trip, that they paid your expenses in coming down here?

Mr. ARNESON. Oh, no. It was just because I didn't want anything like that to be done that I called the board together. No; they didn't pay my expenses.

The CHAIRMAN. Is there any further statement that you care to make?

Mr. ARNESON. No, sir; that is about all I have to say. This subject has been pretty well gone over by those who have spoken before me.

The CHAIRMAN. You believe it is to great advantage then, to have the privilege of hedging?

Mr. ARNESON. Yes, sir.

The CHAIRMAN. Do you care to express any opinion as to speculation or gambling—the questions that have been brought up here?

Mr. ARNESON. No, sir; I do not; because I never gamble myself, that is what they call gambling. I never sold short or long. I always keep pretty close.

The CHAIRMAN. It seems to be quite generally agreed that speculation and hedging go hand in hand.

Mr. ARNESON. Well, it might.

The CHAIRMAN. Unless you find a speculator you can not dispose of your hedge.

Mr. ARNESON. Well, that seems to be very true.

The CHAIRMAN. That seems to be the general opinion. Are there any further questions to be asked of Mr. Arneson? If not, that is all. We thank you very much.

Mr. Wollin, of Marshall, Minn.

STATEMENT OF MR. H. R. WOLLIN, REPRESENTING THE FARMERS' ELEVATOR & MILLING CO., MARSHALL, MINN.

Mr. WOLLIN. Mr. Chairman, and gentlemen of the committee, it certainly has been a great pleasure for me to be able to be here for two days listening to men representing the grain exchanges, brokers and bankers and other handlers of grain. Now, so many people have been here speaking on the subject before you, that I would only have to repeat what has already been said, and I feel that I can give you nothing now except that I want to substantiate one fact, which is that under the present system of marketing futures, trading is the main protection that I have in the operating business that I do.

Now, I am representing The Farmers' Elevator & Milling Co., of Marshall, Minn., operating several elevators in Minnesota, and in making my daily purchases I can either sell directly to the consumers or millers, such products as we handle, or I can go into the terminal market and protect these purchases by hedges or future sales.

For instance, if I purchase a car of oats to-day I could sell a future against that, and in a week's time I would ship that car of oats to the market, taking the cash price for those oats and buying in the future that I had sold at the time that I made the purchase, closing up the entire transaction, or buying my cash from the farmer and selling the future, later selling my cash on the market and buying in my future.

This being the main issue that is confronting this committee, the futures trading and protection, I have only this to ask, as the manager of the Farmers Elevator, on behalf of the people interested directly with me, that if there are any changes to be made in the way of handling this business that this committee should endeavor to give us something as good or better than what we have got, because we feel that we have got as good a system now as could be had. We feel that this committee should be able to give us something as good or

better than we have, if there are any changes to be made. And as treasurer of the Tri-State Shippers Association, of which there are between three hundred and four hundred members, composed of independent cooperative and farmers' elevators, I take it on myself to make the statement that that would be the statement of most of the members of this organization, that this question of futures trading should be thoroughly gone into before breaking this machinery under which we are getting the best protection that could be had, as far as we all know.

Now, if there are any questions to be asked I would be very glad to answer them, sir.

The CHAIRMAN. Are you engaged in the milling business now?

Mr. WOLLIN. Not at the present time, except feed milling, but I was engaged with a milling company for nearly four years.

The CHAIRMAN. You are now engaged in the elevator and grain business? You buy and sell?

Mr. WOLLIN. I am the manager of two elevators, sir.

The CHAIRMAN. You consider it of some value to the millers, as well as the shippers, to have this privilege of hedging?

Mr. WOLLIN. To the millers, yes, sir; or to any handlers of grain.

The CHAIRMAN. In general, do they avail themselves of the hedg- ng privileges?

Mr. WOLLIN. They do where they are successful.

The CHAIRMAN. Do you consider a hedge an absolute insurance at all times?

Mr. WOLLIN. Not an absolute insurance throughout the entire year when cash grain can work on a premium.

The CHAIRMAN. The premiums interfere, do they not?

Mr. WOLLIN. The premiums interfere, unless you are in a position to hold this cash grain and benefit by the rise in market to get the benefit of it; otherwise it is not a safe insurance.

The CHAIRMAN. Does the premium interfere frequently?

Mr. WOLLIN. I didn't quite catch your point.

The CHAIRMAN. Does the cash wheat generally go to a premium?

Mr. WOLLIN. Why, at some times throughout the year it does work to some premium.

The CHAIRMAN. That operates against the hedging?

Mr. WOLLIN. Which would operate against the country operator that was shipping his stored grain and selling, and buying futures against it, so that the futures market would not work out in accordance with the cash, which would be explained in this way, that in the fall of the year when the heavy movement is on a country operator would be shipping out stored grain which was being purchased on the basis under the future market. Later on the cash may work up to the futures basis and above the futures market; thereby he would not be in a position to realize the advance of his cash, but he would have to pay the advance on the cash grain that he had shipped. He would not have the same come-back on his futures as he would if he had not shipped that cash grain. Thereby he would be put to a loss.

The CHAIRMAN. Do you store grain?

Mr. WOLLIN. We do to a certain extent. We store a certain amount of it.

The CHAIRMAN. Suppose to-day wheat was worth $2 a bushel, and suppose you should hedge on May delivery at $2, and you agreed to pay the farmer a certain price below the primary market, say 10 cents. You pay him 10 cents off. In the meantime cash wheat goes up to $2.20. How would you come out on that transaction?

Mr. WOLLIN. And the futures market remaining the same?

The CHAIRMAN. Yes.

Mr. WOLLIN. I would be out a loss of 20 cents a bushel.

The CHAIRMAN. So it is not an absolute security or an absolute insurance in that case?

Mr. WOLLIN. No, sir; it is not.

Mr. MCLAUGHLIN of Michigan. There are a number of companies that do business the same as you do and some that do not hedge. Which get along the best?

Mr. WOLLIN. The ones that hedge. I can give you an illustration of that, sir. There are two towns right near me, in one of them they do not do much hedging and in the other one they did too much.

Mr. MCLAUGHLIN of Michigan. One did too much hedging, you say?

Mr. WOLLIN. Yes. Now, some managers do too much hedging. And it seems to me that that is one of the reasons for the agitation throughout the country that speculation should be limited. Some of these managers do too much hedging, which is not in accordance with the ideas of their organizations or institutions. But they buy too much, and they do not understand hedging, and sometimes they overhedge.

Mr. MCLAUGHLIN of Michigan. If it is going to be permitted at all, how is it going to be regulated? How are you going to prohibit them from hedging too much?

Mr. WOLLIN. I don't know.

Mr. MCLAUGHLIN of Michigan. When you start out to hedge by buying 1,000 bushels, you could just as well buy 2,000 or 10,000 bushels, couldn't you?

Mr. WOLLIN. I could just as well, yes, if I take the chances on the market.

Mr. MCLAUGHLIN of Michigan. Do you think that there could be a law that would forbid you to hedge for 10,000 bushels instead of 1,000 bushels?

Mr. WOLLIN. I think there could be State laws enacted that would take care of those evils throughout the State.

Mr. MCLAUGHLIN of Michigan. Permit you to hedge only for the amount of the transaction that you had back of it; is that the idea?

Mr. WOLLIN. Yes, sir.

Mr. MCLAUGHLIN of Michigan. Do you think that would be a proper law? Do you think it would work well?

Mr. WOLLIN. A law prohibiting small corporations or small institutions buying or selling commodities for other people, that they do not actually handle, I think would be a good law, because they are representing the people and handling those commodities for their people in their territory. I think that there should be a law enacted or some way found to prevent these people from overbuying and selling, and only buying or selling such commodities as they have a right to sell and buy.

Mr. MCLAUGHLIN of Michigan. I presume a law might be passed to that effect, or at least a legislative body would have a right to

pass a law to that effect by way of regulation of a corporation created by the legislative body, but do you think a law could properly be passed that would limit the transactions of an individual?

Mr. WOLLIN. I can not answer that.

Mr. MCLAUGHLIN of Michigan. And you spoke of it being a State law. A State law, I presume, would regulate transactions within the State, or relating to what is called intrastate commerce, and the Congress of the United States might perhaps have the authority to pass a similar law as to interstate commerce. But that law would limit the operations of the corporation, but perhaps might not reach the individuals who were not the creatures of the law, and wouldn't it be embarrassing, and also wouldn't it lead to confusion, if there was a law for a corporation and not a law for an individual?

Mr. WOLLIN. Maybe I don't understand your question. I think there should be a law prohibiting an individual working for a corporation to take the liberty of doing something that he should not do.

Mr. MCLAUGHLIN of Michigan. Well, if an individual acts for a corporation it is the act of the corporation, isn't it? What he does is done by the corporation.

Well, perhaps we are only speculating now, but Mr. Tincher has introduced a bill which would limit the amount of futures trading to three times the amount of the trading in the actual commodity. Do you think that would be a good law?

Mr. WOLLIN. From my point of view, and as far as my business is concerned, all I want is to trade in the actual amount that I buy, to protect that amount, and, speaking from the standpoint of all farmers' elevators, the protection they want is the protection for the actual amount of what they buy in cash.

Mr. MCLAUGHLIN of Michigan. When you go out and buy a thousand bushels, do you hedge for a thousand bushels? Some of these gentlemen say that when they buy a thousand bushels they hedge for two or three thousand bushels—one gentleman said six thousand, I think. What is your practice?

Mr. WOLLIN. My practice is that when I buy a thousand bushels of grain I sell a thousand, either as a hedge, or sell the actual commodity, in which case I do not have to hedge. And if I buy a car of wheat from a farmer, and a mill within my immediate territory needs a car of wheat, I sell it to them.

Mr. MCLAUGHLIN of Michigan. But if you can not find an immediate buyer for the wheat that you have bought, then you do hedge?

Mr. WOLLIN. Then I do hedge; yes, sir.

Mr. MCLAUGHLIN of Michigan. For the same amount that you have bought?

Mr. WOLLIN. For the same amount that I have bought.

The CHAIRMAN. Is that all, Mr. McLaughlin?

Mr. MCLAUGHLIN of Michigan. Yes.

The CHAIRMAN. We are very grateful to you, Mr. Wollin.

Without objection, the committee will take a recess until 2 o'clock.

(Thereupon, at 1.30 o'clock p. m., a recess was taken until 2 o'clock p. m. of the same day, January 15, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Saturday, January 15, 1921.

AFTER RECESS.

The committee resumed at 2 o'clock pursuant to the taking of recess. Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will come to order. The committee will be glad to hear Mr. Young.

STATEMENT OF HON. GEORGE M. YOUNG, A REPRESENTATIVE IN CONGRESS, FROM THE STATE OF NORTH DAKOTA.

Mr. YOUNG. Mr. Chairman and gentlemen of the committee, I wish to thank you for your courtesy in arranging a time when I could appear that would not interfere too much with the hearings we are also having over in the Committee on Ways and Means. I also wish to thank you for your courtesy some two weeks ago in consenting to hear Mr. John M. Anderson, president of the Equity Cooperative Exchange, who at that time was anxious to appear before your committee. However, this happens to be the period when the exchange is having its annual meeting and he found it impossible to get here on that account. He requested me to come before your committee and reflect the views of the Equity Cooperative Exchange by presenting a brief which has been prepared under his direction, showing in detail his views on the proposition of future trading.

I want to say that the Equity Cooperative Exchange was organized something like 15 years ago and has been doing business right along ever since, and has enjoyed a steady growth. It now has 21,000 stockholders, practically all of them men who actually live on farms. It has over 400,000 patrons, men with whom it does business. They have a modern terminal elevator at St. Paul. The organization began, first, along the line of organizing local farmers' elevators, and later they built a terminal elevator at St. Paul. This was done through the sale of stock. It is a corporation organized under the laws of Minnesota, and the money raised for its different purposes is secured by the sale of stock, and the sales of stock up to this time have been almost entirely to actual farmers.

The volume of business they did for 1920 was over $35,000,000. That record of business done has been made against very active opposition and competition. In fact to the minds of some of us who live out in the Northwest, one of the best things that can be said of the Equity Cooperative Exchange is that it has been harassed and fought to a standstill by the Chamber of Commerce in Minneapolis.

That organization proceeded, not only through the ordinary commercial methods, to fight this farmers' organization, but it also instituted an action in the courts in North Dakota to have its charter canceled, and subjected the farmers to much advertising of a false and defamatory character and greatly to their disadvantage, it being claimed that the capital stock of their exchange had been impaired, and also bringing upon them the expense of defending a series of other lawsuits.

Mr. McLAUGHLIN of Michigan. Mr. Young, I notice that you used the words "to a standstill" a while ago. My understanding of those words is that they mean that they conducted a successful fight. Do you mean to say that that was fought to a standstill in fact?

Mr. YOUNG. I mean to say that every possible weapon was used to destroy this farmers' organization; and that not only were the usual commercial methods used to drive them out of business, but an effort was made to take away their charter—which, as it looks to me, was striking below the belt. The only claim that I know of that was made in the courts at that time was that the capital of the Equity Cooperative Exchange had been impaired. It is well known that new organizations frequently have to use some of their capital stock while getting under way. It is known to the members of this committee, that, for instance, the most of the banks that are organized, for one or two or three years at the very beginning of their career, have to use some of their capital to establish their business and in that way it might be said that their capital is impaired. Their published statements show they are in the red. But this is getting off the subject, in a way. I simply mentioned the fact that that attempt was made to take away the charter of the exchange by way of evidence of the determined and unfair fight they made to drive the exchange out of business. The Equity Cooperative Exchange, during its entire history, has stood against future trading as carried on in the great exchanges of the country at this time.

I want to say, too, that our opinions on future trading are apt to be based on what we learn from the great exchange that happens to be nearest to us. I appreciate the fact that it is necessary to have a great market. It is necessary to have a market somewhere. It might just as well be at Minneapolis as anywhere else, but we in the Northwest know that the market in Minneapolis is not a free market. We know that the market there is under the control of the chamber of commerce, and that it amounts to a monopoly. They are not satisfied to do the business that comes freely to them. It is not an open market. If Mr. Haugen were to drive up to Minneapolis, where they have more flour mills than anywhere else in the United States or in the world, you would think he could sell a load of wheat there. He could not do it. That is to say, he could not sell it to any flour mill. There is no flour mill in Minneapolis that would buy that load of wheat. If you say that that is too small a quantity, then I will say if you went there with a carload of wheat you could not sell that carload of wheat to any mill in Minneapolis. It is absolutely impossible. You have got to go around and pay your tribute to the chamber of commerce before you can sell a bushel of wheat in Minneapolis.

Mr. McLAUGHLIN of Michigan. Why?

Mr. YOUNG. Because they have an ironclad monopoly of that district.

Mr. MCLAUGHLIN of Michigan. It is because they believe the chamber of commerce is necessary and that they must maintain it, or trade with it, and that if they permit the kind of trading you speak of it would have a tendency to break it down and that it would be ultimately broken down?

Mr. YOUNG. Well, my own opinion, Mr. McLaughlin, is that a different policy there would never destroy their market. It is the natural place for a market, and I do believe it is necessary to go to the extent of being monopolistic in order for it to be a success. There is every natural reason why they should have a big and successful market in Minneapolis. I think if they would take a big, broad view of the situation, they would reform the chamber of commerce themselves without their being compelled by the Congress or the legislature of Minnesota to correct present evils. The Minneapolis business men are, to my mind, very shortsighted. It seems to me they should join with the farmers in demanding the reformation of the chamber of commerce.

Mr. MCLAUGHLIN of Michigan. According to the statement there are a very large number of traders on the Chamber of Commerce of Minneapolis; that they buy in small and large quantities, aggregating an immense volume, and for every purpose conceivable for which grain is bought or sold and used. With that breadth of organization and operation, do you still call it a monopoly?

Mr. YOUNG. Yes, I do, and for this reason, and I will give you a concrete illustration: You want to know why Minneapolis flour mills will not buy directly from a farmer if he should take his wheat to Minneapolis. I do not undertake to say why they do not do it, but I can tell you what one of the flour millers said was the reason to a neighbor of mine who went down and attempted to make a sale.

This neighbor of mine went to Minneapolis to sell wheat in the same kind of package that anybody else attempts to sell wheat in, that is, in a carload lot. He offered three cars of wheat. He went to one flour mill and they told him, no, we do not care to buy. He went to another flour mill and they told him, no, we do not care to buy. He went to a third flour mill and they told him, no, we do not care to buy. The first three mills did not tell him why, although he asked the reason. The fourth man my friend interrogated said, in effect: Well, we have to have a lot of wheat in order to keep our mill running. If we buy this wheat from you, perhaps next summer, when we need wheat pretty badly, we can not get it from the members of the chamber of commerce, and the only safe thing for us to do is to buy all our wheat from them, otherwise they might shut our mill up.

Mr. MCLAUGHLIN of Michigan. Why might he not be able to get wheat next year from the exchange?

Mr. YOUNG. Well, of course, that is because the wheat movement is apt to be off the farms in the fall and early winter, and there is a large amount of storage in Minneapolis; wheat is found stored there in the summer, and the safest place for a miller to get his wheat is from that storage in the elevators and not off the farms directly.

Mr McLaughlin, of Michigan. I am not speaking in behalf of the chamber at all when I ask these questions, but here is a miller who needs a large amount of wheat, and he needs a constant supply, and he wants to know always that he will be able to get his supply. Naturally the safest and surest and steadiest source of supply for him would be the chamber, but if he were to permit one after another of the individual farmers to come to his mill and offer wheat, and he can buy it, and if the other millers should do the same thing, it might have an influence on the chamber of commerce; it might embarrass them in their business and ultimately might make them close their doors. Then this miller would think that this supply from the individuals who might come around would possibly be uncertain and it would not be safe for him to try to carry on his business in that way. Have I expressed myself clearly?

Mr. Young. Yes; you have made your position very clear.

Mr. McLaughlin, of Michigan. Well, what I want to know, is there anything in that argument?

Mr. Young. I do not think there is very much in it, and for this reason: That Minneapolis is not an artificial center where wheat comes. It is a natural place for all the wheat of that country to go, practically all of it goes there for the flour mills or to Duluth to go into ships to go overseas. It is the natural place for a market. With their great flour mills there is every reason why wheat should go there. But our contention is that it ought to be a great open, free market free from this ironclad control of the chamber of commerce. It is against the provisions of the Sherman antitrust law to enter into a combination of that kind. For 20 years, to my personal knowledge, Congress would not do anything in the way of providing legislation, and the Attorney General's Department would not do anything to prevent those combinations in restraint of trade and to get control of the wheat supply of that country. One Attorney General promised me in writing to prosecute the chamber of commerce, and then afterwards pulled his halter.

We think at least that that market ought to be made a great free, open market, in which anybody who has any wheat to sell can sell it without being forced to pay a commission to somebody who happens to have a membership on that exchange. I do not doubt but what, if you did change the law, the bulk of the wheat would go down there for sale by the commission firms. There would still be a function and service for them to perform; there would still be things that the commision firms could do to help the grain producer sell his grain, and to sell it to advantage, particularly offgrade wheat.

It is the custom of many of the people of our country to consign their wheat to commission firms. Some of them will send it to farm organizations, and some send it to members of the chamber. There are still things that the members of the chamber could do, and it may be that the bulk of the wheat business would remain in the same channels. But it does not seem to us that the Congress ought to permit at Minneapolis and the other great centers, great markets to be continued in such a way that they are not on the square, that they are monopolistic, and in defiance of the Sherman antitrust law.

Now, coming to the question of future trading: We believe that there is——

Mr. McLaughlin of Michigan (interposing). Permit me to interrupt you to say that you have used the words "not on the square."

and that you may be asked to go back and tell the particulars in which they are not on the square. I merely say this at this time because I do not want to interrupt your argument but just to have it on your mind so you can return to that point and amplify it.

Mr. YOUNG. Very well, and if you do I shall give you several other particulars in which the Chamber of Commerce is monopolistic. While it has given its ticker information service to practically everyone, even to pool rooms, but has refused it to the Equity Cooperative Exchange. A number of other illustrations could be given and will be if you desire it. Now, on this question of future trading: The position of the Equity Cooperative Exchange, as will be developed by the brief which they prepared and which I have here, will show that they have selected as the most desirable bill pending before this committee, the one introduced by Mr. Tincher of Kansas. What I have been saying up to this time I do not pretend to say represents entirely the view of the Equity Cooperative Exchange, although I believe it does. It at least represents my own view.

I shall now read the brief prepared by the Equity Cooperative Exchange, under the direction of Mr. John M. Anderson, its president, by Benjamin Drake, its attorney, who has been before this committee on former occasions, an able lawyer who has given many years to study of this subject and whom I think the chairman of this committee knows:

STATEMENT OF BENJAMIN DRAKE, ATTORNEY FOR THE EQUITY COOPERATIVE EXCHANGE OF ST. PAUL, MINN.

To the House Committee on Agriculture:

I am instructed by the Equity Cooperative Exchange to submit the following statement and to request its reception as a part of the published report of hearings before your committee upon future trading bills as follows, viz: H. R. 14657, introduced by Representative Tincher of Kansas; H. R. 14654, introduced by Representative Dickinson of Iowa; and H. R. 15122, introduced by Representative Hoch of Kansas.

The Equity Cooperative Exchange is a cooperative association incorporated under the laws of North Dakota, with principal offices at St. Paul, Minn. The association has a paid-up capital of more than $1,000,000, more than 21,000 stockholders and in the neighborhood of 400,000 active patrons and supporters throughout territory tributary to Minneapolis, Duluth, and Chicago. The association owns and operates a terminal elevator at St. Paul and a line of country elevators in Minnesota, North and South Dakota, and in addition handles grain and live stock for members and patrons upon a commission basis. It maintains offices at St. Paul, Minn., Superior, Wis., and Chicago, Ill. Last year the business turnover of the association amounted to more than $35,000,000 and present prospects indicate that it will exceed $60,000,000 during the present year.

The association is truly cooperative, and for this reason is not a member of any of the so-called organized grain exchanges. Its present growth and stability has been achieved in the face of unparalleled opposition on the part of these exchanges, particularly the Minneapolis Chamber of Commerce. Within the past 60 days the Federal Trade Commission, after full investigation has issued and served a complaint against the chamber, alleging unfair commercial practices directed against the association, and this complaint is set for hearing February 7, 1921.

The attitude of our association, representing nearly half a million of the actual farmers of the Northwest, may be briefly stated as follows:

1. The association is uncompromisingly opposed to short selling and every form of purely speculative future trading.

2. The association demands legislation to check short selling, speculative future trading, and market manipulation, and is convinced that such legislation should be enacted by the National Congress rather than by the various State legislatures.

3. The association believes that the practice of hedging is useful and beneficial in the trade and ought to be preserved if it can be separated from the riot of gambling transactions, now carried on in all organized grain exchanges under the claim and

pretense that indiscriminate and unrestricted gambling is necessary in order to afford a hedging market.

For the purpose of more fully explaining its position in this matter the association begs leave to submit the following résumé of the subject. The statements following are based in part upon what appears to be the most authentic general information available, and in part upon actual experience of the association in marketing and distributing more than 80,000,000 bushels of grain during the past few years.

For the past 20 years the attention of the American public has been repeatedly called to the evils of market manipulation. The New York Stock Exchange has long been an object of attack and its practices have been given the widest publicity. It is only, however, within the last eight years that there has been any real public discussion of short selling and market manipulation as applied to grain and produce exchanges.

This last phase of the question is the most important, because it affects the greatest number of people and because in this case the subject of price manipulation is invariably a necessity of life. Price manipulation as applied to industrial and other stocks affects only a few persons of means; but manipulation of the prices received for farm products directly affects all growers and consumers of these products—in a word, affects all persons. The whole problem has assumed such proportions that its solution is a public necessity. The solution should come as the result of careful study. It must be based on facts, not invective or hysterical appeal. It must come, moreover, from the common people, the source from which every reform of merit springs. The grain gamblers themselves will never suggest or institute a real reform.

For many years the public has heard but one side of this controversy—the arguments of the speculators themselves who wish to perpetuate the system. The organized grain exchanges of the United States all are private industries. They are carried on for the pecuniary profit of their members. Whenever speculative features of grain exchanges have been assailed the members of these grain exchanges, ably aided by the banks, newspapers, servile politicians, and big business generally, has sprung to the defense.

We are told that future transactions as carried on in grain exchanges relieve the producer of the necessity of carrying his grain at the risk of fluctuation until such time as the consumer can actually use it. We are told much of the practice of hedging a purchase against a sale, and vice versa. It is claimed that this practice amounts to insurance against speculation. We are told that on the whole unlicensed speculation as carried on today increases the price which the producer would otherwise receive for his grain. And we are told, lastly, that the whole subject is too vast and intricate to be understood or even discussed intelligently by anyone except the few favored individuals who are actually engaged in the grain trade and incidentally profiting by the system.

Yet notwithstanding this persistent and long-continued effort to convince us that short selling in grain and other farm products is essentially right and proper, public opinion is apparently steadily setting against the practice. The practices of the New York Stock Exchange have few defenders. A late Democratic platform declares without qualification against gambling in food products. A recent Republican platform does the same.

A bill recently passed Congress directed against short selling in cotton exchanges. A bill introduced at the 1913 session of the Minnesota Legislature, calling for the total prohibition of future trading, failed to pass the lower house by only a single vote in 1914. The powerful Rules Committee of Congress, after a solid week of hearings, where both the producer and grain exchanges were represented, has demanded a general investigation of future trading, and frames the following indictment against the Chicago Board of Trade, the Minneapolis Chamber of Commerce, and the Duluth Board of Trade:

"That it is the common practice of these controlling members by concerted action in these three great markets, offering or withdrawing enormous quantities of wheat of the public warehouses and terminal elevators and by concerted bidding and betting in the put on futures, to depress or raise the price of wheat to suit the purpose of their gambling operations; that the prices are by such combination and manipulation depressed while the farmers are compelled to market the heavy portion of each crop, and raised and manipulated so as to tempt speculative investors after the bulk of each crop is in the control of the combination; that for each bushel of real wheat actually sold and handled in each of these terminal markets at least 100 bushels are bought and sold in so-called future trading; that the multiplied expense of all such future trading, as well as most of the profits thereof, must come out of the real wheat actually marketed. that the only part of the gains of gambling in wheat not borne by the farmer or buyer of bread is borne by men tempted to speculate in the put; that the number of em-

bezzlements, bankruptcies, and wrecks caused by gambling in wheat futures is appalling; that the members of the Chicago Board of Trade, the Minneapolis Chamber of Commerce, and the Duluth Board of Trade, through whom such gambling operations are made, cover and hide the record of the losses sustained by speculators and refuse to exhibit their books to the State officials whose duty it is to protect the public; that the Chamber of Commerce of Minneapolis and the Board of Trade of Chicago, by virtue of a large membership of wealthy men closely allied with banking institutions, transportation companies, and with certain daily newspapers of their communities, exercise and control an unwholesome influence in local government and public opinion."

Three bills are now pending before this committee the purpose of each of which s to curb gambling in grain and produce exchanges. The national "Committee of 17" now working upon a comprehensive plan for national cooperative marketing, and representing the majority of the organized grain producers of the country, has adopted a drastic resolution calling for the elimination of all short selling in grain. Editorials from a hundred influential farm papers and resolutions from a hundred farm organizations might be quoted in support of restrictive legislation, if time and space permitted. Without attempting to quote the whole indictment, enough has been called to the attention of this committee to show that the American public has set itself seriously to the task of either prohibiting or greatly restricting short selling n the products of the farm.

The terms "future trading" and "short selling" broadly speaking, mean the same hing. Each term may in turn cover two general practices which should be specified n order to secure accuracy of thought and designation.

The so-called practice of hedging is one variety of future trading. It is the kind f future trading which is constantly harped upon and unduly emphasized by the lefenders of short selling in order to distract attention from the other kinds of future rading which can not be defended at all. Hedging is best understood by the familiar llustration of a man hedging a bet. Having a bet on one side, he also bets on the ther side, and thus guards himself against loss, whatever the result.

Keeping in mind the general idea of hedging a bet, two illustrations will suffice to how examples of a hedge as used to-day in the grain exchanges. A Minneapolis miller has an order for 10,000 barrels of flour to be delivered next May at a certain rice. That price is based upon the present price of wheat. The miller does not now what the price will be next May. He does not wish to invest capital in wheat nd store it until May. Neither does he wish to assume the risk of wheat going up r down between the present time and the date of delivery. If he had many such ontracts, a rise of 25 cents per bushel might mean great loss or even financial ruin. Therefore at the time of accepting the order for 10,000 barrels of flour he goes into the narket and buys 50,000 bushels of wheat for delivery in May. In this way he has edged his sale of flour, whether the market goes up or down. The payment of the nargin required protects him against loss from fluctuation in price.

Another typical instance of hedging is the sale of actual grain for future delivery y a local country elevator. The elevator may be full of grain, but owing to railroad ongestion or other cause, it may be impossible to get the grain to the terminal inside f 30 days. During this time wheat may fall 20 cents per bushel. The directors of he local elevator do not wish to bear this risk. They therefore direct their manager o wire some commission house at the terminal to sell 25,000 bushels of wheat for uture delivery. When this is done, the elevator has only to make delivery within he time specified and it is protected against loss from a falling market. In other ords, the elevator has hedged its own purchase of grain in the same way in which he miller has hedged his sale of flour.

Some persons see grave objections in the practice of hedging. It is pointed out ith truth that practically no other commodities except grain and grain products an be protected by the hedging practice. The manufacturers of all other products e obliged to bear the risk of price fluctuation. Why, then, should the handlers grain and grain products enjoy the singular insurance against risk in market fluctuation? The answer is that in theory at least it enables all parties to do business on a closer margin. The miller, it is claimed, can make a closer price on his flour. he local elevator can pay a better price for the grain, because the profit of each can ot be wiped out by price fluctuation.

Moreover, it is also true that hedging differs from all other forms of future trading this respect; it is based upon a commodity either actually in existence or contracted for in a bona fide sense. In my own opinion, as terminal marketing is now onducted, hedging is a practical necessity. It is a necessity, because unlicensed peculation as now carried on causes sharp and constant fluctuation in market price. other words, it is short selling itself which causes the market variations which ake hedging a present necessity.

Senator Cummins, in his argument on the cotton futures bill, quoted in the Congressional Record for September 3, 1913, sums up this argument admirably when he says:

"It is said—and this is one of the arguments most frequently used—that short sales ought to be permitted, because they tend to steady the market and tend to prevent extreme fluctuations in the price of commodities. I have read a great deal of argument submitted to sustain this contention. I can not at this time enter upon an analysis of the subject as I would like to do. I can only record my own opinion that instead of steadying the market short sales disturb the market. Instead of preventing extreme fluctuations they excite extreme fluctuations. Those who defend the practice always forget that when short sales are used to steady prices—and I admit there are times when they are so employed—they are employed to steady prices which the practice itself has disturbed."

But whatever may be the merits or demerits of hedging, as used under the present system, it is certain that the practice can not be preserved unless it can be separated from the other forms of future trading. If it can not be separated from the other vicious forms of future trading which lend themselves to price manipulation and exploitation of the producer, then hedging must inevitably go. The public, when it learns facts, the stupendous volume and controlling influence of sheer gambling transactions, will eradicate the whole system of future trading unless hedging can be separated from the riot of gambling transactions which to-day raises and lowers the price of grain at will of the gamblers.

The volume of hedging, as compared with the total volume of future transactions of the grain exchanges of Chicago and Minneapolis, is comparatively insignificant. If all the grain entering the Minneapolis terminal in an entire year were hedged once, it would amount to less than 300,000,000 bushels. If it were hedged three times, it would still amount to less than a billion bushels. As a metter of fact the evidence at hand indicates that the total future transactions on the floor of the chamber of commerce aggregate not less than 10,000,000,000 bushels. The future transactions which are not the result of hedging and which probably aggregate more than 9,000,000,000 bushels a year in Minneapolis alone, are purely speculative or gambling transactions. These are the transactions which make possible price manipulation, and which the public to-day seems determined to wipe out.

This speculative variety of future trading is more easily described than defined. It differs from hedging because there is no actual interest to protect or hedge. Ordinarily there is neither actual delivery of the grain nor any intention to delivery. The speculator or gambler buys or sells grain for future delivery on the chance of a favorable change in the market before the time specified for the delivery. Settlement of these transactions is commonly, almost invariably, effected by payment of the difference in price, called margins, instead of actual transfer of the grain. The speculator, therefore, merely makes a bet on what the future price of grain is going to be. He has no actual interest to protect, unlike the man who hedges.

To what extent is this purely speculative variety of future trading carried on? And what is its effect, if any, upon the price of cash wheat?

Let us answer these questions one at a time. One of the dramatic features of the grain exchange hearing before the Rules Committee of Congress was the testimony of Samuel Hallet Greeley. For 28 years Mr. Greeley had been a member of the Chicago Board of Trade. He had sold his membership only 10 days before the hearing in order to be able to testify without fear of punishment. Mr. Greeley said that at the lowest estimate the future trading transactions of the Chicago Board of Trade amounted to three hundred times the entire volume of wheat handled in a year. In other words, for every bushel of real wheat handled 300 bushels of phantom grain were bought and sold. On a single day, Mr. Greeley says, he has seen 25 Chicago firms buy and sell 5,000,000 bushels of grain apiece for future delivery. He styled himself an "insignificant" trader, but said that on many a day he had bought or sold a million bushels of grain and thought nothing of it. When it is remembered that recent average yearly receipts of wheat at Chicago do not exceed 50,000,000 bushels at the most, the sale of over 17,000,000,000 bushels for future delivery becomes simply appalling.

Mr. Greeley says that individual firms of Chicago lease private wires to the Pacific coast at an annual rental of more than $100,000 per year, so stupendous and so profitable is this system of organized gambling and exploitation. He tells us that at times single firms of Chicago work as many as 20 clerks and bookkeepers night and day simply to jot down and enter in their books of account the enormous volume of these future trades.

The only trouble with Mr. Greeley appears to be that he is altogether too conservative in these figures and statements. He has understated the facts. Willet M. Hays, formerly Assistant Secretary of Agriculture, says that the future trading of the Chicago Board of Trade amounts to at least 90,000,000,000 bushels annually, which makes Mr.

Greeley's figures of seventeen billions pale to insignificance. In January, 1913, the Assistant Secretary of Agriculture, published an article in the American Academy of Political and Social Science, entitled "Junctions and needs of our great markets." He says upon page 353:

"There is evidence that the really large speculative dealing is in wheat on the Chicago market. Estimates made some years ago indicate that 90,000,000,000 bushels of grain sales were made annually in Chicago."

Again he says, upon page 250:

"It is perfectly clear, however, that in the large the outside speculators and the producers and consumers among them lose money to a class of men who do not really pretend either to produce, to transport, or to manufacture; and they also pay the expenses of running an expensive speculative machine.

"A very rough estimate places the money received from the people by exchanges and their bucket shop appendages in America alone at upward of $200,000,000 annually. On the face of it, this seems a high price to pay for fluidity and acceleration to the market and for the opportunity of hedging."

Mr Hayes further states in this article that the speculative public loses annually at least $30,000,000 "through dealing with speculators with business connections with your (cotton) exchanges, or who assume to have such connection." According to Mr. Hayes's estimate, the annual losses of the public through the speculative features of grain and cotton exchanges would build a Panama Canal every second year. It would build 40,000 miles of macadamized roads over gumbo prairies every year. And these figures do not take into consideration at all the losses which producers themselves sustain through manipulation and depression of prices of the commodities which they grow.

Nor is it necessary to rely entirely upon the testimony of Mr. Greeley nor the investigations of Mr. Hayes in order to determine the volume of gambling transactions upon the Chicago Board of Trade. Sworn testimony and admissions of the members themselves are available to establish these facts. Some years ago the Chicago Board of Trade prosecuted Christie Odell and others as bucket shoppers. The substance of some of the testimony in those cases as taken from the appeal record is as follows:

Charles A. Weare, of the Weare Commission Co., testified that his firm did a business of 600,000 bushels a day and that not more than 1 per cent resulted in actual deliveries. C. D. French, broker, testified that he had done a business of 100,000,000 bushels annually for 15 years and that only two or three times in all his experience had he had any property delivered to him. He fixed the total of the deliveries at about 200,000 bushels, or one two-hundredths of 1 per cent of his business.

Ex-Gov. James E. Boyd, of Nebraska, testified that he had been a commission merchant and dealer on the Chicago Board of trade, and that actual deliveries were not one-half of 1 per cent of his business. Austin W. Wright, one of the heaviest speculators on the floor of the Chicago Board of Trade, testified that he had been a speculator for over 30 years and a member of the board of trade for 20 years andthat in all that time he had never but three or four times paid for any grain. Since 1892 he was positive that he had not received or delivered any of the actual commodity. The following question and answer was put to Mr. Wright:

"Q. What is the difference, if there is any, between speculation on the board of trade and speculation off the board?—A. There is no difference. Locality can not affect the character of the transaction."

Walter Comstock was another interesting witness in the lawsuit. He was a member of Schwartz, Dupee & Co., the largest or second largest speculative house in the United States at the time when he testified that in the previous year his firm had dealt in from 2,000,000 to 3,000,000 bushels a day, and that in the previous December there were delivered to his firm only about 100,000 bushels of all kinds of grain. His testimony showed that not more than one-fifth of 1 per cent of the enormous business of his firm resulted in actual deliveries. The remaining 99⅘ per cent represented deals settled through the clearing house of the board of trade.

Judge Thompson heard the O'Dell case, and in his decision declared:

"The evidence convincingly shows that the larger part of the transactions in grain and other produce on the complainant's exchange are merely gambling transactions conducted by some of its members in violation of the law of the State of Illinois against bucket shops.

"The bucket shops are the offspring of the Chicago Board of Trade and kindred organizations, to which they still look for sustenance and life, and they can only be effectually suppressed by striking at the root of the evil. When this species of gambling on the commercial and stock exchanges of the country ceases the bucket shops will disappear, and not before."

It is unnecessary to comment upon this evidence. The promoters of the Louisiana lottery paid the State of Louisiana $40,000 for the privilege of running a gambling institution. The Chicago Board of Trade pays nothing; but the profits of its members from this source alone, computing them at the regular rates established by its own rules, would be not less than $75,000,000 per year.

At Minneapolis the evidence is not so clear as to the actual volume of future transactions. It is no doubt less than that of the Chicago market. At the grain investigation of 1913, conducted by the Minnesota Legislature, the members of the chamber of commerce refused to show their books disclosing the volume and details of their future trading. However, the volume of this future trading appears indirectly. It was shown at this investigation that within the chamber of commerce is the corporation known as the clearing-house association.

This association had only 37 members out of a total of more than 300. Its sole business was to clear the future trades of its own members. For this service it received one-half cent per $1,000 of future transactions cleared. This was the sole source of revenue. Out of this revenue the association had paid its yearly expenses of $24,000, declared dividends, and accumulated a large surplus. The revenue to the clearing-house association for clearing $1,000,000 in future trades would be only $5. Computing simply the amount of future transactions necessary to maintain the yearly expenses of the clearing house and ignoring wholly the dividends paid, the surplus accumulated and the admitted fact that the clearing house acted for only a part of the entire membership, it appears that the future transactions passing through the clearing house amount each year to approximately $5,000,000,000. From all the facts and evidence it is quite clear that the entire volume of future transactions must equal at least 10,000,000,000 bushels per year. This estimate is apparently borne out by the testimony of F. G. Holbrook, a Minneapolis pit trader. He testified that on an average his future transactions amounted to 67,000 bushels per day, and that he seldom, if ever, delivered any real wheat to a purchaser. It is evident that approximately 90 per cent of the commission revenues of the members of the Chicago Board of Trade, taken as a whole, and three-fourths of the commission revenues of the members of the chamber of commerce are at present derived from future trading.

In the case of Chicago the revenues derived from future trading must amount to approximately $75,000,000 a year, and in the case of Minneapolis between five and eight million dollars per year. The revenue derived from handling consigned grain, figuring a single commission, has never exceeded $1,000,000 in Minneapolis, or $2,000,000 at Chicago, in a single year. Gambling, therefore, is not merely an incident or adjunct. It is the main business of the modern grain exchange.

Time does not permit me to give the facts in detail, but the evidence taken at the Minnesota investigation shows conclusively that there never has been a year when the revenue of the commission houses of the Minneapolis chamber, taken as a whole and computing a single commission upon consigned grain entering the terminal, would be more than one-half of their admitted expenses. The major portion of these expenses and practically all revenues must be derived from future trading.

Judging from the facts obtainable, the bulk of these future transactions come from men not engaged in the grain business at all. Carefully contrived market news is ticked off the ticker every minute. Sure tips are freely circulated. The imagination of the sucker is aroused, his activity stimulated, and he takes a flyer in wheat. He may be a lawyer, doctor, farmer, a minister of the gospel—all are welcome; the money of each is accepted. Bankruptcy and financial ruin may follow, often does follow, but in any case, win or lose, the board of trade member makes his commission.

Some members of the Minneapolis chamber maintain uptown offices for the accommodation of the indiscriminate betting public. Some maintain private wires at vast expense. It is a vast and highly developed system—a democratic system, where the money of the poor pensioner or defaulting bank clerk is just as welcome as that of the millionaire theoretically fitted to bear the risk of fluctuation.

What effect do these stupendous gambling transactions have on the price of cash wheat? The answer is that within limits of many cents per bushel they absolutely determine and fix the price which the producer receives for his grain. Gambling can not, of course, completely do away with the law of supply and demand. But within limits these future dealings give speculators in wheat pit the power to raise or lower the price of cash grain at will.

Under the present system the price of cash grain is determined by the price of future grain. It is determined by what is called the "dominant" future, meaning the nearest date in the future fixed by the speculators as the delivery date. These dates are May, September, December, and July. Just now the dominant future happens to be May and the price of cash wheat is fixed by the May future. Theoretically, the price of cash wheat is the price of the dominant future less the cost of storage of the actual grain

to the date of supposed delivery. Sometimes, under abnormal conditions, the rule does not work out exactly. But for practical purposes the price of cash wheat is fixed by the price of the dominant future. If the future goes up, the price of cash grain follows. If the future goes down, so does the price of cash grain. This is admitted by the members of the grain exchange themselves.

At the 1914 hearing before the Rules Committee at Washington, John Stream, a member of the Chicago elevator monopoly, which handles 90 per cent of the actual grain entering the Chicago market, testified as follows: "We would take the closing market of the future and calculate what was a fair price for cash grain." At the Minnesota investigation, B. S. Ireys, of Minneapolis, pit trader, testified: "The price of cash grain is made by the price of future. If the buyers' orders were more numerous and vigorous the price would immediately respond and go up." The testimony of W. A. Gregory, E. L. Welch, and F. A. Hallet was to the same effect. Welch admitted that large dealers in the great markets, by acting in concert, had the power to temporarily affect the price of cash grain in any direction which might suit their purposes. He admitted further that if the market were affected for only a few minutes trades of stupendous magnitude could be closed. F. A. Hallet, since president of the Minneapolis chamber, testified: "At times I have seen the market advance half a cent on an order of 50,000 bushels; then I have seen it depressed in the same way." F. B. Wells, president of the Minneapolis chamber in 1913, testified in substance that speculators working collusively and in secret could raise or lower the price of cash grain at will. The only qualifications which he imposed upon this admission was that speculators could not hold the price permanently at a given figure, although they have the power to alter it at will.

Mr. YOUNG. Remember, gentlemen of the committee, those are statements that have been made by the Minneapolis Chamber of Commerce. Mr. McLaughlin a few minutes ago wondered whether I was not overstating something, or whether I ought not to be just a little more careful in the selection of my words. Here are statements made by members of the Minneapolis Chamber of Commerce themselves.

Mr. TINCHER. I think some of the members of the Minneapolis Chamber of Commerce whose names are in that paper are now in the room.

Mr. YOUNG. I do not happen to have the privilege of the personal acquaintance of these gentlemen, and therefore I do not know whether they are here or not. I am only stating the facts, and the fact of their presence here occasions no embarrassment to me whatsoever. The farmers of the Northwest, who put a tremendous amount of hard work into the production of wheat, and who have the greatest interest in the price received from that wheat, are naturally anxious to have a market in Minneapolis that is free and open, free from abuses, and we hope you gentlemen on this committee will present a bill to the House that will go as far as possible toward clearing up the abuses existing on that exchange.

I will now continue reading this brief:

The facts quoted above are not surmises. They are the admissions of grain-exchange members themselves. Under the present system as now carried on by the privately owned grain exchanges the price of farm products is made the football of speculators. The agency is simple and effective. The price of the future determines the price of cash grain. The price of the future in turn is fixed by the relative strength of a flood of fictitious sales and purchases thrown on the market by speculators who know just what they want. If the speculators for their own purposes wish to lower the price of grain they throw on the market a flood of selling orders, and the price is beaten down. If they wish to raise the price they throw on the market a flood of buying orders, and the price is boosted up. The speculators pull the lever, and results follow. On a sensitive market in the Minneapolis Chamber of Commerce an offer of 50,000 bushels will sometimes depress the price of cash grain half a cent per bushel. What influence, then, does 9,000,000,000 bushels of option trades and phantom grain at Minneapolis and 90,000,000,000 at Chicago judiciously dumped on the market in the course of a year—what influence does this unthinkable volume of future trading have upon the price of grain?

Before proceeding to the discussion of the various bills before this committee we beg your indulgence to again define the real issue involved in the controversy. The real issue is the restriction or prohibition of speculative future trading. Under no circumstances can the spokesman for the grain exchanges be brought to a discussion of the real issue. He knows that he is lost unless he can cover up and ignore the issue. The apologist for the present system completely ignores speculative trading. If he be a member of the Chicago Board of Trade he knows that out of every thousand transactions upon his exchange only approximately one is genuine and the other 999 are sheer gambling transactions. He knows that more than 90 per cent of the total commission revenues of his associates are derived from commissions on gambling transactions. He knows that even in the largest crop years the actual commissions received for handling real grain would not begin to equal the admitted expenses of those members of his organization engaged in the commission trade. He knows, too, that under his system a million bushels of speculative trades when consummated in the market have exactly the same effect as the purchase or sale of the same amount of real grain.

Instead of meeting this issue frankly the defender of future trading avoids it by turning the discussion to "hedging"—the one-thousandth part of future trading that can logically be defended. He talks fluently of the benefits of "hedging" and then sets up the humorously illogical claim that it is necessary to preserve indiscriminate gambling in grain exchanges in order to preserve a "broad and elastic hedging market."

Once again let it be understood that the producers who are opposing "future trading" are not opposing "hedging." For the purposes of this hearing our association will concede "hedging" to be a beneficial practice. We concede it to be an insurance against risk of loss by price fluctuation. We will concede that it very probably reduces the margin between the price paid to the farmer in the country and the final price received at the terminal. We concede it to be a facility to the trade which ought to be retained. We fully expect to retain it, but we have come to the conclusion that in order to have an elastic hedging market, it is not necessary to have 1,000 bushels of speculative and manipulative trades for every bushel of real grain handled. We have come to the conclusion that whatever virtue there may be in the practice of "hedging" it neither merits nor necessitates the stupendous speculative transactions which make every organized grain exchange of this country the biggest gambling institution in the community in which it is situated. We oppose speculative trading—not hedging. We maintain that it is not necessary in order to afford a hedging market, that gambling should be the main business of an organized grain exchange and legitimate distribution a mere incident. We insist that all hypocritical declamation conserning "hedging" be dropped, and that the defenders of the present system explain, if they can, why unlicensed speculation in present volume is either necessary or desirable.

This committee should also bear in mind that camouflage arguments in favor of "hedging" will not be confined to members of grain exchanges. A grain trade journal of Chicago announces that a number of leading Chicago bankers have sent tlegrams protesting against the legislation proposed before this committee. This is to be expected. In Chicago, as in Minneapolis, the leading banks are virtually controlled by the grain exchanges. They will send such messages as the board of trade or the chamber of commerce chooses to dictate; and other large business interests, subject to the same control, will do the same. In Minneapolis, merely as a matter of interlocking directorates, it has been shown that members of the chamber of commerce and their business and professional associates practically control the two largest banks as well as a number of others. The First and Security National and the Northwestern National Bank of Minneapolis may be expected to protest loudly before your committee. Such opposition must be discounted when the source of their control is remembered. For detailed statement of this control see report on House resolution 424, Sixty-third Congress, second session.

Another circumstance which, we believe, should be kept constantly in mind is the fact that to be completely effective legislation of the character under consideration by your committee should preferably be national in character. During the past three sessions of the Minnesota Legislature bills have been introduced to restrict or abolish future tradings. Such legislation is again pending before the legislature now in session. Before such legislative hearings, J. J. McHugh, the secretary of the Minneapolis Chamber of Commerce, and other defenders of indiscriminate speculative trading, have always contended that State legislation upon this subject is bound to be effectual. The present governor of Minnesota has taken the same position in a message to the legislature delivered within the past 10 days. The governor has advised the legislature that the limitation of future trading is not a proper subject for State legislation, but should be enacted by the National Congress.

The advocates of indiscriminate future trading have frequently asserted that if the practice is limited or abolished in Minnesota, the members of the organized grain exchanges will either remove the location of their future trading operations across the State line to a selected point in Wisconsin, or use the Chicago market for such purpose. Without conceding the inefficiency of State legislation on this subject, we believe that it is a subject peculiarly appropriate for national legislation. National legislation will bring about uniformity of rules and restriction, which is, of course, extremely desirable, and, in addition, the National Government would appear to have at hand better and more adequate means of enforcing the law than any of the States.

A careful consideration of the bills before this committee convinces us that the framer of each bill is moved by considerations which we believe to be sound and correct from an economic and political standpoint. In all the bills the principles sought to be enacted into legislation are:

1. To eliminate speculative future trading so far as may be done without destroying a "hedging" market of requisite volume, continuity, and elasticity.

2. To carefully preserve to the grain trade whatever of facility and advantage there may be in the practice of "hedging."

After a study and analysis of the four future trading bills now before the committee we are inclined to believe that H. R. 14657, introduced by Representative Tincher, embodies the principles set forth above in more workable form than any of the other bills. This bill guards the integrity of the hedging market by permitting all sales for future delivery where the seller is in actual possession of the subject matter of the sale, and further by permitting all registered dealers to freely sell or contract for the sale of additional products aggregating but not exceeding three times the entire volume of actual products handled during the fiscal year. Under this law, assuming that 10,000,000 bushels of actual grain is consigned to a licensed dealer during the year, he could sell for future delivery, free of tax: First, all grain actually received; second, in additon, three times the amount of such grain. In other words, a legitimate dealer can sell for future delivery, without tax or restriction, four times the amount of grain actually handled. This should be sufficient to afford a broad, elastic, and continuous "hedging" market.

The association which I represent has always, so far as necessary for complete protection, covered all of its entire receipts and purchases by "hedging" operations. Yet it is a significant fact, contrasting strangely with the claims of the advocates of unrestricted future trading, that the volume of our hedges has never equaled the volume of our actual receipts. In practice much grain is consigned to the terminals upon a "to arrive" basis, and it is not necessary to "hedge" such sales in the accepted sense.

J. M. Anderson, president of the Equity Cooperative Exchange, has publicly gone on record as favoring the entire abolition of all short selling in grain. Based upon years of study, together with the practical experience of our own association, he is convinced that actual sales of grain in possession will afford a buying market sufficiently broad and elastic to meet the actual needs of the grain trades.

However, let it be clearly understood, our association does not desire to destroy the "hedging" market. We desire to retain and preserve it. We do not want to take chances or to throw the grain trade into chaos. If we are to err at all in this initial legislation for the control of futures trading, we desire to err on the side of conservatism, not radicalism. To this end, in order to assure the integrity of the hedging market beyond any question, we would be entirely willing to so modify the provisions of bill referred to above as to permit the licensed dealer to sell as much as six times the volume of his actual receipts.

We beg the indulgence of the committee while we briefly analyze the practical workings of a law which would permit a licensed dealer to sell for future delivery a total of six times the grain actually received. Wheat is the grain most commonly sold for future delivery. Other grains are either not sold at all or sold in smaller volume. The entire wheat crop of this country has rarely, if ever, exceeded a billion bushels. If six times the actual volume of wheat were sold, it would probably not exceed 6,000,000,000 bushels. In the past the yearly volume of future trading in grain exchanges has equaled at least 150,000,000,000 bushels. If we assume that one-half of all past future trading operations have been sales, the amendment suggested above would probably reduce the volume of future trading sales from 75,000,000,000 to 6,000,000,000 bushels. We are confident that even this limitation would quite effectually take the profits out of grain gambling, seriously impair the power now possessed to manipulate prices, and generally restore normal conditions and influence in the trade. Eliminate the gambling profits, even to the degree suggested above,

and the huge establishments and enormous expenses of the gambling parasites of the trade can no longer be maintained. The gamblers will drop out. The legitimate dealers will remain and the trade restored at least to a semblance of normality.

As suggested above, we are satisfied that the present provisions of the proposed bill will provide a proper hedging market. If there is any question in the minds of your committee, after hearing the evidence submitted, we would suggest it is entirely practical to double the volume of sales permitted to a licensed dealer under this bill and yet secure the substantial results which the legislation seeks to accomplish.

We would suggest, also, that the utmost care be exercised to so frame the provisions of this legislation that technicalities and red tape in the matter of entering into sale contracts and keeping the record thereof, be avoided. Sale orders are usually executed upon telegraphic instructions. They must be executed instantly upon receipt to be effective. The commission merchant at the terminal can not know what is in the mind of his principal in the country. The principal may, in fact, be speculating but the commission agent does not know this and has no reason to suspect it. Nor can the commission agent wait to secure sworn affidavits as to ownership and possession from his principal in the country. Under these circumstances the commission agent ought not to be penalized. We believe that the legislation should provide that any sale order originating from a dealer regularly engaged in the grain business, should be presumptively genuine and permissible, and shall not result in the imposition of a penalty upon any commission agent executing the order in good faith and without notice, notwithstanding any other provisions of the act.

We would also call attention to the fact that producers of grain often desire to sell their crop for future delivery before it is completely grown or matured. This practice is quite generally carried on by the potato growers of Minnesota, and presents some advantages. H. R. 15122, introduced by Representative Hoch, would preserve this privilege to the growers. We question whether H. R. 14657 does preserve it, and would suggest that this provision be incorporated in the bill last referred to.

Respectfully submitted.

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January 11, 1921.

Mr. YOUNG of North Dakota. Mr. Chairman, another brief is to follow this on the Steenerson bill. It had not been received at the time I left my office, but it will probably be here in the next few days, and I would like to file it and have it printed in the record for the information of the members of the committee.

The CHAIRMAN. Without objection, it is so ordered.

Mr. YOUNG of North Dakota. That is the brief, gentlemen, of the equity cooperative exchange. I realize that what committees do, and especially what it is expected that committees will do, is very, very often erroneously reported. I hear frequently these days predictions as to just what the committee on the third floor, that I happen to be a member of and to which I was demoted, as Mr. McLaughlin says, is going to do. Sometimes they are right and sometimes they are not.

The word has persistently gone out from this committee room that the members of this committee were disposed to go very slowly in the matter of restricting future trading.

I thought perhaps it would be proper for me, as a former member of the Committee on Agriculture, to suggest at least a few things that you could embody in a bill which would regulate the great exchanges of the country, that would be a very great benefit, and over which there ought not to be, it seems to me, serious objections. Of course, I suppose, it is impossible to get any legislation through this committee that will not be opposed, but it seems to me there are a few things that we could perhaps all agree upon pretty well as essential, or as beneficial, in connection with any legislation on this subject.

If you find that you can not go as far as requested by the great farm organization whose views I have just submitted to you—if you feel that you can not go that far—I am wondering if you could not go this far: Amend the Tincher bill so that it will embody these principles:

1. The rules of all exchanges should be uniform.

2. Qualifications for membership should be liberalized so as to admit to membership organizations such as the Equity Cooperative Exchange.

Here is an organization with over $1,000,000 capital, organized under the laws of Minnesota, on the stock basis, thoroughly solvent, and that organization has been denied membership on the Minneapolis exchange.

3. The rules as to future trading should be changed.

(a) So the buyer can get the grain he contracts for, or its equivalent.

Mr. McLAUGHLIN of Michigan. The hedger does not want that?

Mr. YOUNG of North Dakota. I do not see why he would not want it, Mr. McLaughlin.

Mr. McLAUGHLIN of Michigan. No. He hedges for protection and immediately cancels his hedge the moment the transaction that he hedges and protects is carried out.

Mr. YOUNG of North Dakota. Very well, then, if he wants proper and exact protection, he wants just what I said. I do not believe you understood it.

Mr. McLAUGHLIN of Michigan. Maybe I misunderstood you.

Mr. YOUNG of North Dakota. My contention is that he ought to have just what you say, protection, if he is going into a contract of that kind it ought to be to protect both parties, and it ought not to be fast on one side and loose on the other.

Mr. McLAUGHLIN of Michigan. Will you state that again?

Mr. YOUNG of North Dakota. The rules as to future trading should be changed so the buyer can get the grain he contracts for, or its equivalent.

In other words, if a man buys something, when it comes to the date of delivery he wants to have that given to him or its equivalent.

Mr. McLAUGHLIN of Michigan. The contracts for grain?

Mr. YOUNG of North Dakota. Yes.

Mr. McLAUGHLIN of Michigan. If he gets that grain or its equivalent?

Mr. YOUNG of North Dakota. Yes.

Mr. McLAUGHLIN of Michigan. The hedger does not want the grain, does not expect to get and he does not get it.

Mr. YOUNG of North Dakota. Yes, but he wants its equivalent.

Mr. McLAUGHLIN of Michigan. No, he does not want anything and he does not get anything; he cancels his hedge just as soon as the transaction in the real stuff is completed.

Mr. TINCHER. He gets money.

Mr. McLAUGHLIN of Michigan. He gets the difference, if there is any.

The CHAIRMAN. In other words, he gets the money but he does not get value received?

Mr. YOUNG of North Dakota. That is it.

Mr. McLAUGHLIN of Michigan. He gets the difference.

Mr. YOUNG of North Dakota. My contention is simply this—I do not profess infallibility—I am simply suggesting it, that he ought to get what he contracts for. If there is anything to this thing at all, if a contract means anything, he ought to get the grain he contracts for or else he ought to get its equivalent.

Mr. MCLAUGHLIN of Michigan. I do not see why the gentlemen appearing here for it try to camouflage as to what the hedge is. I do not see why they should try to deceive us as to what a hedge is. A man who is called upon to deliver a thousand bushels of wheat in an actual transaction goes in and protects himself with a hedge, not for the purpose of getting, buying, or selling another thousand bushels of wheat, does he?

Mr. YOUNG of North Dakota. Why, of course not; we understand that thoroughly.

Mr. MCLAUGHLIN of Michigan. Then, why talk about a contract so that he can get what he contracts for?

Mr. YOUNG of North Dakota. Or its equivalent.

The CHAIRMAN. When settling, they can make cats and dogs deliverable on the contract if they want to.

Mr. MCLAUGHLIN of Michigan. He does not get anything.

Mr. YOUNG of North Dakota. If he does not get its equivalent, he is not receiving anything except what they want to deliver him.

Mr. MCLAUGHLIN of Michigan. It is a bet, is it not, Mr. Young?

Mr. YOUNG of North Dakota. Mr. McLaughlin, when you and I make a bet, of course, we agree on it, and we make a contract on it, and whatever the contract is we will live up to it. But here is a gambling proposition in which they make a contract, and then afterwards when they come to settling they can pay it in cats and dogs, as the chairman says.

If there is any virtue at all in future trading, if there is any virtue at all in this gambling proposition, then it ought to be conducted on the square.

The CHAIRMAN. Should they determine that cats and dogs be delivered on their contract, they would have to accept it.

Mr. MCLAUGHLIN of Michigan. He would not accept a cat and a cat would not be offered; he would not accept a dog and no species of a dog would be offered him. The difference would be settled with money.

The CHAIRMAN. He accepts settlement of the contract for whatever he gets.

Mr. MCLAUGHLIN of Michigan. It is not a dog market or a cat market, but it is money.

The CHAIRMAN. It is not; but they can make it such, that is all.

Mr. YOUNG of North Dakota. It is chiefly a gambling market, Mr. McLaughlin; that is what it is. Now, then, if the Government is going to permit gambling, I think it ought to be done on the square.

Mr. MCLAUGHLIN of Michigan. It is necessary and proper, but it is a gambling and betting proposition.

Mr. YOUNG of North Dakota. If it is a betting proposition, it seems to me, if the Government is going to permit it, it ought to sit in on the game to see that it is done on the square.

The CHAIRMAN. It is a betting proposition.

Mr. MCLAUGHLIN of Michigan. Mr. Anderson and Mr. Drake approve that gambling proposition when there is an actual transaction behind it. I do not see why they try to get away from it.

Mr. YOUNG of North Dakota. Their views are stated in that brief and it will all be printed word for word, and I think it will show they are not inconsistent on that.

The next step, I should say, would be.

(b) So the seller will have no more to say about the date of delivery than the buyer.

If we are going to have a future market, if we are going to have future trading, it would seem to me that there ought not to be any advantage in the seller over the buyer, or the buyer over the seller.

As a matter of fact, if you examine their rules for future trading, you will find that they are made in such a way as to play in along with the short sellers, and, as a matter of fact, the membership of these great exchanges is made up of a majority of short sellers, and of course the majority makes the rules, naturally and humanly not against themselves.

This suggestion I have made here, that the seller shall have no more to say about the date of delivery than the buyer, is important. For instance, if a man sells, for May delivery, he can deliver any day in May. But the man who buys has got to take it any day it is thrown at him. I do not call that a fair rule, and we can not expect that a market handled in that way is going to work right. Somebody is going to get trimmed on a proposition of that kind, either the man who sells the wheat or the consumers who afterwards buy it.

(c) So that there will be a record kept showing the names and addresses of all buyers and sellers, open to public inspection.

Here is this committee, which has been having hearings for two weeks, and they do not know what the transactions are on the Chamber of Commerce of Minneapolis, Chicago, or any other of these exchanges except what members may in an offhand way happen to say about it.

Mr. MCLAUGHLIN of Michigan. May I interrupt you there?

Mr. YOUNG of North Dakota. Certainly.

Mr. MCLAUGHLIN of Michigan. Shall each one of the gentlemen who transact business on the exchange keep a record as he enters the name of the purchaser, perhaps, whom he represents, and the name of the buyer with whom he has had his transaction, the amount of the grain and the price and the time? I have never seen one of those records, and I do not know just how they are kept, but I would venture there was little besides that kept on the record.

Mr. YOUNG of North Dakota. The only trouble about that is——

Mr. MCLAUGHLIN of Michigan (interposing). Just a moment.

Mr. YOUNG of North Dakota. Certainly.

Mr. MCLAUGHLIN of Michigan. And these records are practically alike, all of them; there is no memorandum made on one that it is a hedge by a man who is a miller, and had a real deal behind him, and a memorandum made on another that "This is a transaction in which there is no real grain passing," or "intended to be passed," and so on—no description of the real transaction.

So that if those records were kept and they were open to inspection an official who went in to look at them or went for any other purpose would not get very much information along the lines you are talking about, would he?

Mr. YOUNG of North Dakota. I think he would get this much, Mr. McLaughlin: He would at least know the volume, he would know how much was speculative and how much was not.

Mr. McLAUGHLIN of Michigan. Wait a moment. How much was speculative?

Mr. YOUNG of North Dakota. Well, I think he could, because we can tell how many bushels of grain go into Minneapolis, and if we find out the total transactions, we could easily subtract 300,000,000 bushels from it, which would give the total of speculative sales.

Let me say this: I think this committee has already had some testimony to show that the British Government has been taking a pretty active hand in transactions on the different exchange markets of this country, and that they have been taking a very intelligent hand in the proposition from the standpoint of the British consuming public, and it would seem to me that if it is worth while for the British Government over a period of years to make a study of how to get wheat for the British public at the lowest possible price, it is worth while for this committee and this Congress to see to it that for our exportable surplus that we get as good a price as we can for it. I am speaking now from a broad national standpoint.

Then, in order to do that, it would seem to me as though it would be of value to know to what extent Great Britain has been operating in our markets. For instance, if they tell a man when he leaves Great Britain that they want him to buy 100,000,000 bushels for import into Great Britain, and we find when he comes over to the United States that he immediately sells 500,000,000 bushels, I think it would be worth while for us to know that.

That is what I am told they do when they come over to buy wheat, that they start in selling, and they go the limit at selling; and after they get the price down where they think it ought to be, they buy cash wheat. That may be true or it may not be true, but I should think if we could have a record of this kind, if this committee will provide a law that will let us inside we will know the true situation. If their proposition is on the square, they ought not to object to allowing the light of day through it.

Mr. McLAUGHLIN of Michigan. When this British agent comes over here he has not a membership on the board of trade and he employs a broker or some one who has a membership?

Mr. YOUNG of North Dakota. Yes.

Mr. McLAUGHLIN of Michigan. And if he does, as you say, he directs his broker to sell wheat. Must the broker when he goes into the pit—If I am properly describing the course of proceedings—state whom he represents; and that this British agent has ordered him to sell wheat so as to force down the price to the miller so that he may buy it later at that low price? How are you going to make a record of that? If it can be done, I am willing to have it done, as I see it now.

Mr. YOUNG of North Dakota. It would seem to me that that would not be an impossible task. Naturally men would not come in and make a speech when they sold something to Great Britain, but he would disclose the name of the party for whom he was acting, just simply give the name and address of the party for whom he was selling or buying.

Mr. McLAUGHLIN of Michigan. Does the broker do that when he goes in there?

Mr. YOUNG of North Dakota. He may not do that now; I think he does not. That is what you gentlemen ought to arrange for him to do.

Mr. MCLAUGHLIN of Michigan. This broker would go on the exchange and call, "I wish to sell a thousand bushels of wheat for Mr. John Bull"?

Mr. YOUNG of North Dakota. Why not? I would like to know when he sells and when he buys; that is what we want to know. I do not know what day this year they bought actual wheat, but I will guarantee this, that it was a day when it was low, because they know when to buy. We ought to pay a little attention when we sell. If we were more intelligent about selling our exportable surplus, it would be a might sight better for our country.

Mr. MCLAUGHLIN of Michigan. That may be all right, Mr. Young. It has some good sounding qualities, anyway. Suppose you yourself wanted to do it or a miller in Minneapolis or in your town?

Mr. YOUNG of North Dakota. If it is an honorable transaction, I do not know why a man should be ashamed of it. There is no harm for a man to buy wheat; there is no law against it. I do not know of any reason why transactions in wheat should be made secret.

Mr. MCLAUGHLIN of Michigan. And you must disclose your purpose?

Mr. YOUNG of North Dakota. Oh, no; you simply disclose who is the real party who is selling or buying.

Mr. MCLAUGHLIN of Michigan. It must be known whether it is a hedge; it must be known whether it is a speculation. You must give them your word, so they can write down indicating the state of your mind and carry it through. Is not that right?

Mr. YOUNG of North Dakota. No; I think not. If it is as you say, that John Bull has bought 100,000,000 bushels of wheat, we know without being told what it means.

Mr. MCLAUGHLIN of Michigan. One of his subjects in Canada may belong to the exchange, and he will ask him, while in Minneapolis, to sell a million bushels of wheat for him.

Mr. YOUNG of North Dakota. Even granting there was some little doubt as to why he was buying or selling, I think we should be placed in possession of that information, and let us do our own guessing as to why he is operating.

Mr. TINCHER. One of the most pressing things to me in connection with the hearings we have had before this committee is this proposition: I started in with what I considered reliable estimates, from men I had confidence in, that wheat was being sold 14 times before it was thrashed, and perhaps enough times afterwards to aggregate 40 times, total. Gentlemen in whom I would like to have confidence come before this committee and put into the record their careful estimate, which would put it at ten times, and very sarcastically suggest that this is "not fourteen times," and this "is not forty times."

Since that time I have been informed by men that I think have just as good a chance to know the amount of wheat that is gambled in as perhaps Mr. Gates has, and I am told that I am wrong on my figures, and that they are wrong on theirs, and that if we ever get the facts, which we will not get, they say, from these commission conpanies' books, because hundreds of transactions are on a slip of paper and

are never put on the books, but if we ever get the real facts, we will find every bushel of wheat is sold a hundred times instead of forty times. And now, I say, it is distressing to me, as I supposed this was something that an investigating committee could get reliable information on. We have had the testimony on it, and the best we can get from them is an estimate, which to my mind this afternoon is a most unfair estimate, and given in a most unfair manner, and as the gentleman who made it himself said, from rather peculiar figures.

I agree with the gentleman who is talking to the committee that the American producer and consuming public are entitled to know at least how many times their food products are gambled in before they are consumed.

Mr. YOUNG of North Dakota. I should say this, too——

Mr. MCLAUGHLIN of Michigan (interposing). I want to say right there, that I am perfectly willing and I would like to have these facts brought out and have them available, and every record kept and available that will do us any good; and the questions I asked as to how it might be done and what it would lead to, were not in opposition to the idea that it should be done as Mr. Young suggests, but I was just thinking of some difficulties in the way of it, and I thought you might be able to answer my inquiry.

Mr. YOUNG of North Dakota. Mr. McLaughlin, I want to say this, in all seriousness, if this committee delays legislation until they get all the facts in relation to this subject, we will never have any. On the other hand, if this committee will pass a law that will at least go far enough to get us a record of what is done on these exchanges, so that some future Congress can legislate, with all the facts before them, I think you will do something constructive on the subject.

Mr. MCLAUGHLIN of Michigan. Then you think it would be advisable to have each man who takes part in a deal on the board of trade to disclose who he is dealing for and just the nature of the transaction that leads him to make that deal?

Mr. YOUNG of North Dakota. Well, Mr. McLaughlin, I would say this, if I were in your place—if I were one of the members of this committee—when I got into executive session I would write down a list of the questions on things you want to know about, everything that you want to know that you do not know, and that you need in order to deal with this entire subject in a final way; and then I would frame this law up in such a way as to call for the giving or obtaining such information so that in one or two or three years you will have reports before Congress showing what has been done on these exchanges, so that a future Congress can intelligently then pass what might be called something like definite or final legislation.

Mr. MCLAUGHLIN of Michigan. We are told by men who do the actual work on the board of trade that they never disclosed a name of their buyer and purchaser. Do you think they have no good reason for doing that?

Mr. YOUNG of North Dakota. Well, I will say again, I am willing for you gentlemen to sit down around this table and figure out the requirement as to what information should be required, keeping in mind the public interest.

I have three or four more suggestions here to make. I can make them in four or five minutes, if I am not interrupted.

The CHAIRMAN. Do you prefer not to be interrupted?

Mr. YOUNG of North Dakota. It does not make any difference to me.

The CHAIRMAN. Perhaps you had better proceed without interruption.

Mr. YOUNG of North Dakota. It is not denied that future trading is gambling; if so, should not the Government either stop it or sit in the game to see that it is conducted on the square. Should not there be an inspector at every exchange every day of the year?

What I have just suggested would involve Federal license and control, and the appointment of a board of control which might be called the United States Board of Grain Exchange Control.

And would it not be wise also to have the board of control, in addition to its other duties, make a study of the best methods to dispose of the exportable surplus at the best possible prices? I mean by this, to give attention to the problem from the broad national standpoint. We export breadstuffs; England imports them. If it is worth while for Great Britain to plan its purchases in a national way, is it not worth while for our Government to seek in a national way to obtain the best possible price for the grain which leaves our shores?

Mr. MCLAUGHLIN of Michigan. Having in mind the fact that the price paid by the foreigner determines the price at home, the higher price the foreigner pays for that surplus the more the grower of the grain will get?

Mr. YOUNG of North Dakota. You can work that out any way you want. All the producers of this wheat desire is to have the whole transaction carried on on the square, and let the people know what is done.

Mr. MCLAUGHLIN of Michigan. No; you have got a little off on that.

Mr. YOUNG of North Dakota. Do you think so?

Mr. MCLAUGHLIN of Michigan. You have said that the Government should sit into this game and see that the wheat brings the highest possible price, having in view the welfare of the consumer as well as the producer of wheat. Is that right?

Mr. YOUNG of North Dakota. Yes, sir; I think so; and I will tell you why, Mr. McLaughlin: My notion is this, if you pass some such bill as I have suggested, I do not think you are going to see these fluctuations in the price of wheat so radical and so often and so varied as they have been. I think it will be a steadying, stabilizing factor in the market.

From the standpoint of the consumer, as a rule, when prices get up they are a long time coming down, as you know. It does not follow that the flour merchants themselves over at Minneapolis hold that price up, but if that price once gets up these retailers over east keep them up an awful long time, and it is a slow operation to get that price down to correspond with the lower level of wheat; and I really think it would be better for the consumers as well as the producers to have a more even, steady market or price for wheat.

Mr. MCLAUGHLIN of Michigan. You did not say that the Government should take part in this regulating of export business, so that the price would be even. But you said, "get the best price possible."

Mr. YOUNG of North Dakota. Yes; I think that is true; I think that is good business. When you run your business at home as an

individual you run it so that when you sell you get the best price that can be had and when you buy that you may get the best price at which it is possible to buy. As a nation, when we have anything to export to other countries, either manufactured articles or agricultural stuff, I think it is good business for the United States of America to get the best possible prices we can get for everything we send abroad. That is sound national policy.

Mr. VOIGT. How about this phase of that question? It is generally considered that the price of wheat is determined by the price of the exportable surplus?

Mr. YOUNG of North Dakota. Yes; that is a big factor.

Mr. VOIGT. These grain men all seem to think that the surplus does determine the price of the whole crop. Assume that we raise a billion bushels of wheat; and assume that we export 200,000,000. Suppose that by some governmental agency we could raise the price of the exportable surplus from $2 to $3 a bushel. That would bring into this country $200,000,000, which we would not have had if the price had not gone up to $3. But it also follows, then, that the people of this country will pay $1 a bushel more for the 800,000,000 bushels that remain within our borders.

Mr. YOUNG of North Dakota. I appreciate that that is the tendency. I do not mean to say that anything like that is within the probabilities, but I feel in a proposition of this kind somewhat as Roosevelt did at the time he said, "When you strike, don't strike soft." When the Nation has something to sell abroad it would be against every principle of economics to seek to sell it cheap.

We can not expect and I do not think anybody can expect the producers in the United States, those that have something that must be sold abroad—at least a part of it—that somebody else in the country is going, right here at home, mind you, to pull back on the tugs, who is going to prevent them from doing it, for fear that they themselves may have to pay a little more for what they are going to buy. You know we as a nation can never get anywhere on that theory.

Mr. VOIGT. I do not say we would. I just said that for your thought.

Mr. YOUNG of North Dakota. It is a very pertinent inquiry, and I realize this, that there is bound to be quite a lot of people who would rather see wheat low than high in price; at the same time I think the members of this committee, and I think the Members of Congress, are built on the theory that without regard to how many people might be interested in getting it cheap, they want to see a marketing system in the United States that will be free and open and of such a kind that the producer will get all that he is entitled to.

That is all we are asking for. My contention is that we are now doing business in a market that is not free and open, and I am also claiming that this gambling proposition is one which beats us out of something to which we are entitled.

Mr. VOIGT. Mr. Young, I think it would be thoroughly interesting to the people of this country to find out just what operations Great Britain undertook in this country last year. But, of course, that would require an investigation into the production of the books and papers. I understand that what the British Government did in this country to some extent is this: They bought a lot of grain in this

country last year out of season, and they went in and bought on future contracts a great deal more than they actually wanted. That, of course, drove the price up. Then they suddenly stopped buying and took what grain they wanted on these future contracts, and made the people who had sold those future contracts come across with the difference, and I think within a very few days after the British Government stopped buying last year the price of wheat dropped something like 50 cents a bushel. Now, then, if they bought three times as much as they needed and took a profit on that at 50 cents, they would have made a dollar on every bushel of wheat they bought in this country.

Mr. YOUNG of North Dakota. All I have got to say on that is that I do not know what has happened, but I think it is fair to assume this, that men who make a study year in and year out of how to manipulate that market, the chances are that it was handled skillfully. I do not know what was done. And naturally what we do from this time on will affect what takes place hereafter rather than what has happened in the past. What happened in the past would require investigation, as you say. But if you should pass a law such as contained in these amendments that I have suggested, we would know in the future just what was happening.

The last suggestion, No. 7, is this: The board of control should be required to make an annual report to Congress reflecting the amount and character of business done by all the exchanges, including full information as to future trading, which I venture to say you have not been able to obtain from those who have appeared at this hearing.

Mr. Chairman and gentlemen, I simply want to say this, that every one of these suggested amendments that I have made can be written into that law without attacking the main, big proposition of restricting speculative selling. I am suggesting these various things which you can do without entirely disposing of the question at this session of Congress or at the next session of Congress, and I am hoping that you can go at least that far; and then after that just as much further as you feel that you are warranted in going.

I thank you very much, indeed, for this very generous amount of time that you have given, and I want to say that in appearing before you as I have this afternoon I have been speaking not only for the farmer stockholders of the Equity Cooperative Exchange but also for a great many of the farmers who may or may not belong to that exchange who have written to me on this subject and who are not able to stand the expense of coming to Washington to be heard.

As my suggestions for legislation have been spread throughout my testimony, perhaps it will be well to restate them briefly and without comment.

In addition to what the Equity Cooperative Exchange has asked in their very thoughtful and able brief just read to you I suggest that whatever bill you take up for consideration be amended so as to embody these principles:

First. The rules of grain exchanges should be uniform.

Second. Qualifications for membership should be liberalized so as to admit to membership organizations such as the Equity Cooperative Exchange, a corporation organized along cooperative lines.

Third. The rules as to future trading should be changed—

So the buyer can get the grain he contracts for or its equivalent.

So the seller will have no more to say about the date of delivery than the buyer.

So that there will be a record kept showing the names and addresses of all buyers and sellers, open to public inspection.

Fourth. The Government should either stop gambling in grain or sit in the game to see that it is conducted on the square, and to do this should have at least one inspector at every exchange every day of the year.

Fifth. This would involve Federal license and control of grain exchanges and the appointment of a board of control, which might be called the United States board of grain exchange control.

Sixth. It should be the duty of that board, in addition to its other duties, to make a study of the best methods to dispose of the exportable surplus at the best possible prices; to give attention to the problem from the broad national standpoint.

Seventh. The board of control should be required to make an annual report to Congress, reflecting the amount and character of business done by all the exchanges, including full information as to future trading.

The CHAIRMAN. Mr. Young, we propose to make an effort to draft this bill if we can get two men to agree on one proposition. But, so far, very few have agreed upon anything. They are opposed to any legislation, most of them. In reading your brief presented here I understand that you start out by saying that the exchange is uncompromisingly opposed to short selling and every form of future regulating and future trading, and before you get through reading the brief the brief itself suggests the most liberal bill that has ever been suggested to Congress. It is not only speculation, but it takes in the gambling with it. You say you are for hedging. But you are not satisfied with hedging—not satisfied, but are exceeding the proper hedging three times, but suggested six times over.

Mr. YOUNG of North Dakota. That would be very much less than they have now; immensely less.

The CHAIRMAN. You start out in your brief stating that you are absolutely opposed to hedging.

Mr. YOUNG of North Dakota. You are speaking of the brief?

The CHAIRMAN. Yes, which you presented here.

Mr. YOUNG of North Dakota. If you do not want to be too critical about it, and you will look through the brief carefully, I think you will find it will be harmonized and consistent.

The CHAIRMAN. I will read it very closely.

Mr. YOUNG of North Dakota. And I commend that course to you and all the members of the committee.

The CHAIRMAN. What do you mean by short selling—selling beyond what one has in his possession or what he produces?

Mr. YOUNG of North Dakota. That ought to be a fair definition. If a man who has no wheat to sell to-day orders his commission man to sell 10,000,000 bushels, I should say that was short selling.

The CHAIRMAN. The suggestion is, you can not hedge without speculating.

Mr. YOUNG of North Dakota. That is a problem for you gentlemen to work out here. I have suggested a number of things which I think you ought to be able to agree on, and on that final choice it is all up to you.

I think this, if you will go ahead and pass a bill going that far, then perhaps two years from now, with the fund of information you would get by reason of such legislation, then it would be unnecessary to call anybody here to give information to this committee, as you would have all the information necessary to act on. You could decide, then, perhaps, we will say, that further legislation is necessary or that it would not be necessary to further restrict future selling.

The CHAIRMAN. The question is whether it shall be restricted or not. There is no restriction at the present time.

Mr. YOUNG of North Dakota. I have not been over here at these hearings, but I understood that one of the representatives of the great exchanges said that groups of men on the exchanges at times made up their mind to restrict wild speculation.

The CHAIRMAN. They do.

Mr. YOUNG of North Dakota. If it is all right for them to restrict it, why is it wrong for Congress to do so? It may be that after two years, after you get all the information in front of you, you gentlemen would be in position to say how far the Government should go.

In other words, if they themselves now think it is necessary to curtail it and restrict it, why would it be such an unholy thing for Congress to do so?

The CHAIRMAN. Then the next thing is, what shall that restriction be? Is it not the all-important part of the whole thing?

Mr. YOUNG of North Dakota. I should say if we are going to let people continue to gamble, then that is exactly the question, Mr. Chairman. It is a question of what the rules of betting are going to be.

The CHAIRMAN. As it stands, you are simply betting on the integrity of the contract party, are you not?

Mr. YOUNG of North Dakota. A little bit worse than that, because the contract itself, when you go into it, you can see, is not a satisfactory kind of a proposition.

The CHAIRMAN. That can be interpreted whatever the board of control sees fit to make?

Mr. YOUNG of North Dakota. Yes.

The CHAIRMAN. A while ago I said they can make cats and dogs deliverable on the contract, if they so desire.

Mr. YOUNG of North Dakota. They say what may be delivered on the contract.

The CHAIRMAN. That it shall be graded and limited to a certain number of grades and then the cotton futures act.

Mr. YOUNG of North Dakota. I think those rules ought to be made so that just as far as possible it will be absolutely fair to both buyers and sellers.

The CHAIRMAN. Do you favor hedging?

Mr. YOUNG of North Dakota. I stand exactly on the proposition that is made by the Equity Cooperative Exchange.

The CHAIRMAN. But that is not definite. They start out by saying uncompromisingly that they are opposed to future trading.

Mr. TINCHER. I have heard the reading of that brief, and I think it is consistent all the way through.

The CHAIRMAN. I do not think it is.

Mr. YOUNG of North Dakota. If I am able to properly understand the position of the Equity Cooperative Exchange as disclosed by

this brief, it means to me that they think the proponents of this legislation are disposed to take a conservative view as to what should be done; and they have cautioned, if I understand it correctly here, that this committee go, as you might say, cautiously about this matter of controlling the grain exchanges of the country, and it does not necessarily represent what each member of that exchange believes, or the president of the exchange believes, or what I believe; they have suggested there how far they thought the committee ought to go. It looks to me as though that were mighty good advice, and if this committee will go that far I know it will please the farmers out through the Northwest, and I do not believe that any legitimate interest ought to complain, because I do not see how anybody doing business in an honorable, open, and fair way ought to object to that.

The CHAIRMAN. As I understand the brief, they take the extreme attitude that they are unalterably and uncompromisingly opposed to future trading. They start out that way, at least; and after that, in the close, they are for speculation six times the actual selling, that is, you might speculate six times the amount of the actual trading. What limitation is there upon that? The contract, for instance, may be sold a thousand times, or one time, or ten times, and if you multiply that by six or multiply it by a thousand, how many times have you increased the speculation?

Mr. YOUNG of North Dakota. I think we all know what is intended to be conveyed by the brief, and I think by reading it it will be seen that it is intended to greatly reduce the amount of short selling and, of course, if we put the interpretation on it that the chairman has put on, it would be that he was in favor of increasing the amount of short selling over what we have at the present time.

The CHAIRMAN. You are familiar with the set-up in ring settlements?

Mr. YOUNG of North Dakota. Oh, yes.

The CHAIRMAN. Would you limit the number of transfers on those contracts, outside of the ring? For instance, you buy a thousand bushels; you transfer the certificate covering that to John Jones. John Jones transfers it to John Adams, and John Adams transfers it to somebody else, and it keeps on going a thousand times. So far as the books show, there is only one transaction, one transfer, one sale. Would you put any limitation in that contract?

Mr. YOUNG of North Dakota. I presume the books would have to show each transaction.

The CHAIRMAN. They would not show the transactions outside. I will give you a concrete example: You telegraph Minneapolis you buy a thousand bushels. You receive a receipt representing this business, and you can sell that to John Jones, and John Jones can sell it to John Adams, who brings in the grain, and so on. The board has no record of that receipt or the number of transfers.

Mr. YOUNG of North Dakota. I assume that Congress would not attempt to regulate transactions excepting on the exchanges, of which, of course, there would be a record.

The CHAIRMAN. The certificates can be traded in themselves outside the board of trade.

Mr. YOUNG of North Dakota. If it is done on the board of trade, I should think the law ought to require that it should be made a matter of record; if it is done outside the board of trade, I do not know whether the law could be made to reach such a transaction.

The CHAIRMAN. A number of transactions?

Mr. YOUNG of North Dakota. Yes, every one; I would have all entered, certainly.

The CHAIRMAN. Thank you very much.

Mr. RIDDICK. A few days ago one gentleman testifying—I believe it was Mr. Van Dusen—stated that at Minneapolis for a period of 19 years, according to figures furnished by the Department of Agriculture, the increase in the price of wheat in April over October for that period of 19 years was only 3 cents a bushel on the average for the entire period, attempting to show that the belief had been prevalent in the minds of some people that prices may be manipulated so as to depress the price of a product when it is in the hands of the farmer and then raise it when it is out of his hands.

It struck me that the increase of 3 cents a bushel was rather small, and the more I thought about it the more it occurred to me that perhaps the figures did not state all that the committee might like to have before it. So I asked the Federal Trade Commission for figures covering the period of years prior to the war period on the price of October wheat as against May wheat, instead of April wheat, believing that the increased price did not begin to reflect itself until May, and I have here a statement prepared by the commission covering a period of 29 years, from 1887 to 1916, giving the average price of the contract grade—that is, the lowest-priced variety of wheat available without discount. The spread in that would be less than in any specific rate. The increase in May as over October, according to this table, shows the difference in price on the Chicago market of 7.33¼ cents a bushel, or nearly 4½ cents a bushel more than was placed in the record the other day, and I would like to have this short table inserted in the record if the committee sees fit.

The CHAIRMAN. Without objection it is so ordered.

(The table referred to and submitted by Mr. Riddick is here printed in full, as follows:)

Average prices by months for cash wheat of contract grade at Chicago for 29 crop years prior to the entry of the United States into the war.

[As representing the contract grade, the lowest priced variety of wheat deliverable without discount is used. This method tends to reduce slightly the variation from month to month as compared with the use of prices of a single variety.]

	July.	August.	September.	October.	November.	December.
	Cents.	*Cents.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*
Average 10 years, 1887-88 to 1896-97	72.98	74.06	75.27	77.42	77.34	76.17
Average 10 years, 1897-98 to 1906-7	79.34	78.64	80.41	79.54	79.48	80.20
Average 9 years, 1907-8 to 1915-16	97.92	96.63	99.51	99.96	98.75	102.42
Average 29 years, 1887-88 to 1915-16	82.91	82.66	84.56	85.15	84.72	85.70

	January.	February.	March.	April.	May.	June.	Yearly average.
	Cents.	*Cents.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*
Average 10 years, 1887-88 to 1896-97	75.19	75.75	75.68	76.53	77.86	75.20	75.79
Average 10 years, 1897-98 to 1906-7	81.56	83.57	81.86	82.67	88.40	83.93	81.63
Average 9 years, 1907-8 to 1915-16	106.63	109.17	107.80	109.96	112.80	103.85	103.74
Average 29 years, 1887-88 to 1915-16	87.14	88.82	87.62	89.02	92.34	87.10	86.48

Mr. RIDDICK. I have another table here that I think ought to be in the record. It is very brief. It shows the price in cash corn and December corn on the Kansas City and Chicago markets for the last five days of September, 1920, and the first five days of October of the same year, and the cash corn price in September on the Kansas City market being $1.03 and December corn 88.87; and in October for five days on the Kansas City market the price cash corn 87.90, and the December corn 82.10, showing a fall of 15 cents a bushel on cash corn on the Kansas City market and 6 cents a bushel on December corn. In Chicago the price of cash corn was 125.58, September corn 125.48, almost as much; and December corn 95.61; and for the first five days of October on the Chicago market the average cash corn was 98.50, and December corn 88.6, making a decline on the Chicago market of 27 cents on the cash price, and 8 cents on December corn.

I would like to put that table in, which seems to me to furnish some food for thought to the committee.

It looks as though something approaching a corner in Chicago had the effect of holding the price up to the latter part of September by holding the futures up to cash, which would almost amount to a manipulation of the market.

The CHAIRMAN. Without objection it will be inserted in the record at this point.

(The table last referred to submitted by Mr. Riddick is here printed in full as follows:)

Mean price for five business days ending Sept. 30 and for five days beginning Oct. 1. 1920.

	September 25.	September 27.	September 28.	September 29.	September 30.	Average for 5 days.
Kansas City:	*Cents.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*
Cash corn, No. 2, mixed	111.00	100.50	102.00	102.00	98.00	103.00
December corn	88.31	88.62	89.00	90.12	88.31	88.87
Chicago:						
Cash corn	122.00	123.75	125.88	127.50	128.75	125.58
September corn	121.88	123.75	125.75	127.50	128.50	125.48
December corn	95.62	95.31	95.56	96.56	95.00	95.61

	October 1.	October 2.	October 4.	October 5.	October 6.	Average for 5 days.
Kansas City:	*Cents.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*
Cash corn, No. 2, mixed	95.00	91.00	84.50	84.50	84.50	87.90
December corn	85.62	84.94	80.75	79.31	79.88	82.10
Chicago:						
Cash corn	106.50	102.50	96.25	94.50	92.75	98.50
December corn	92.44	91.62	87.50	86.25	86.50	88.6

Mr. DICKINSON. I would like permission, Mr. Chairman, to insert a statement and several short tables bearing on this future dealing in the record, namely, Tables 74, 75, and 76, Volume I, the Federal Trade Commission Report on Grain Trade.

The CHAIRMAN. Without objection, it is so ordered.

STATEMENT OF HON. L. J. DICKINSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA.

The conclusion can not be escaped that the present marketing system, so carefully built up by the shrewdest business minds of the day, is an effort to carefully guard the investor in those commodities

from the time he purchases it from the producer up to the time that it is sold to the consumer and manufactured by him for the producer; and that no thought has been seriously given to the cost of the article to the producer or to the spread between the producer and the consumer or to the ability of the consumer to buy. And the principal argument in favor of future trading is the fact that it has a record for showing a minimum price in carrying these products from the producer after harvest until they are actually consumed by the manufacturer.

It is apparent to me that several serious evils in the present system are clearly indicated in the testimony given before this committee:

First. The cost of the product is not a factor in fixing the price and the fluctuation can reduce the price to any minimum regardless of the effect upon the producer. This is not true in the manufacture of articles in the industrial world.

Second. It is apparent from the testimony here that grain men are firm in their opinion that the export quantity of any given grain more or less regulates the price regardless of the demand for home consumption or the price paid therefor. This appears to be an evil for which some remedy should be found.

Third. It is admitted by witnesses on both sides of this subject that manipulation is possible under the present marketing system and that a man with large and ample funds can "bull" or "bear" the market as he sees fit and that it has a fluctuating effect which can not be avoided. It is apparent to me that the sale of futures by which a small sum paid down will permit a commission firm to buy or sell large volumes of grain, assists the manipulator in carrying out his desire to either raise or lower the market. It is apparent to me that a manipulator can have more effect upon the market when he is only compelled to pay 10 per cent margin in cash than when he would be compelled to pay the full amount in cash.

Fourth. The present marketing system permits a centralized control which is apparent in our great marketing centers. Our whole railroad organization and our whole marketing organization tends to centralize and, in view of the fact that the future trading has a great centralizing effect, it is apparent that if future trading was abandoned, markets would gradually seek a location close to the supply and demand, while at the present time they are centered in the large centers and compel the delivery of the product to these large centers. The future trading principle is clearly shown in the centralized market for wheat in Minneapolis, wherein future sales are made in large quantities and wherein hedging is used by all the commercial line elevators. Page 215, Table 74, shows the percentage of commercial line elevators using future trading as a basis of their system, and it is apparent from the data therein given, and also the data given in Table 75, page 215, and Table 76, page 218, that the commercial line elevators are under the control of large commission firms at the central market, and for that reason the central market therein dominates the country market both from a market standpoint and from a banking standpoint. It is also apparent from the tables heretofore cited that in a great winter wheat State like the State of Kansas, the wheat business is carried on with a very small percentage of hedging where the market is not centralized and where

a future market does not dominate the situation; while in the city of Minneapolis, where the reverse is true, the hedging or future sales system does not dominate the situation.

Fifth. There has grown up under the present system a private wire system which is extended out into various small towns for the purpose of giving the fluctuations and quotations from the Chicago exchange. In my judgment, this system is an organized effort to bring the lambs into the slaughter and that a great majority of funds lost by the speculators in carrying the grain risk, which the commission men and the millers claim they can not assume, is carried with the funds secured through the speculators on the exchange and those from outside of the exchange through private wire bids. In my judgment, this should be prohibited.

Sixth. The present system permits puts and calls of privileged buying and selling which, in my judgment, should be prohibited.

Seventh. The present marketing system is also subject to criticism in view of the fact that it permits the short selling operation whereby a large operator will secure an order from a foreign Government or purchaser or other large consumer and will accept this order for deliveries in the future and then interest himself in going out and reducing the market to where he can buy sufficient grain to supply this order at a large margin. This operation has been repeatedly carried on in the last few years.

Eighth. Future selling is also subject to fluctuation from various crop reports and crop conditions brought in our country and abroad. In view of the fact that the cash market usually reflects the future market, it is apparent that all of these centralized markets work upon a high tension and either willingly or unwillingly fluctuate the market according to various reports received from the sources above mentioned. This clearly indicates that the high tension under which the centralized future market works is susceptible to various influences by market reports, some of which are reliable and some of which are false. It would seem, therefore, that regulation should be made whereby only statistical data could be given out, under Government or other control, whereby this influence should be governed solely by the most reliable information obtainable. It would probably be preferable to have the statistical information partially or entirely controlled by Government regulation.

Ninth. It is further shown by the testimony of large consumers of grain in the milling and feeding business that the price of our product is largely determined by the future price of grain plus or minus the margin between the future price and the cash price. An instance is cited by one of the large milling concerns as follows: "A buyer of wheat for milling may to-day pay $1.82 for cash wheat for his mill, against which he sells March wheat at the prevailing bid price, which we will say is $1.69. The price of the miller's cash wheat is therefore fixed at 13 cents over March. His price for flour to his customer is figured accordingly. If March declines he is enabled to lower his price accordingly; if March advances, his price on flour advances accordingly." This clearly shows that the centralized future market with its high tension and ease of fluctuation on the report of future conditions so easily misconstrued or misstated, is a basic factor in fixing the food price of the product manufactured from these various products.

Tenth. The present form of marketing makes speculating a basic principle and depends on the speculator to carry the risk of price fluctuation or the commodity for the miller and the commission firm; but, by the present system, it also compels every producer of that commodity who has any amount of said commodity on hand to carry his grain at the same risk that the speculator carries his risk. In other words, it makes every producer of this commodity a speculator to the amount of the value of the grain that he has on hand unsold.

From the above suggestions it would seem to me that if, in the judgment of this committee, future trading has in it all the merits claimed in it by its opponents that the practice should become universal among all the producers of these commodities and the farmer should hedge his grain before he plants his crop which he has a reasonable expectancy of production and that future selling should be extended to all nonperishable commodities raised in large volumes.

If this committee can not indorse such an extension of the privilege then it seems to me that it should recommend to the Congress the passage of such regulative legislation as would curb the present centralized control of the great markets of the world. It seems to me that this should be effected. First, by prohibiting short selling; second, by barring future sales for a longer period than 90 days and divide the year into five periods of March, May, July, September, and December; third, by permitting speculative sales to continue for a period of 30 days, and if continued for a longer time than that it must be shown that the actual commodity is held in storage by the seller. In other words, that a future sale continuing for a longer period than 30 days must have the actual commodity in his custody or control.

(Tables 74, 75, and 76, Volume I, Federal Trade Commission Report on Grain Trade, submitted by Mr. Dickinson, are here printed in full, as follows:)

[Table 74.]

State.	Percentage of elevators reporting hedging to a greater or less extent.[1]	Percentage of consignment sales reported, crop years 1912-13 to 1916-17.[2]	Percentage of direct sales reported, crop years 1912-13 to 1916-17.[2]	State.	Percentage of elevators reporting hedging to a greater or less extent.[1]	Percentage of consignment sales reported, crop years 1912-13 to 1916-17.[2]	Percentage of direct sales reported, crop years 1912-13 to 1916-17.[2]
North Dakota	94.33	89.87	10.13	Indiana	16.05	48.59	51.41
Montana	89.54	80.87	19.13	Ohio	12.62	32.36	67.64
Minnesota	75.10	91.99	8.01	Missouri	12.43	82.63	17.37
South Dakota	71.75	92.59	7.41	Oklahoma	8.27	14.63	85.37
Nebraska	47.96	62.94	37.06	Michigan	3.68	21.84	78.16
Illinois	43.71	60.33	39.67	Wisconsin	3.04	91.30	8.70
Iowa	33.09	71.86	28.14				
Kansas	20.73	70.53	29.47	All elevators	51.69	72.33	27.67

[1] The question asked was, "Is it a custom to hedge your grain purchases?" The answers fell into four divisions: "Yes," "To some extent," "No," and "Only by flour sales," as appears from Table 73. In this discussion, answers to the first two classes have been combined and those to the last two. The first two classes employ hedging in varying degrees, and hedging by flour sales is a type of hedging of radically different character from hedging in grain. (Vol. VII.)

[2] Chapter VI, section 15, Table 46.

[Table 75.]

Proportion of elevators in specified States reporting hedging in comparison with the prevalence of commission-house financing.

State.	Percentage of elevators reporting hedging to a greater or less extent.[1]	Proportion of times commission houses are reported as source of loans to all sources reported.[2]	State.	Percentage of elevators reporting hedging to a greater or less extent.[1]	Proportion of times commission houses are reported as source of loans to all sources reported.[1]
North Dakota	94.33	33.76	Indiana	16.05	.....
Montana	89.54	24.12	Michigan	3.68	.....
Minnesota	75.10	18.84	Ohio	12.62	.....
South Dakota	71.75	21.16	Missouri	12.43	3.89
Nebraska	47.96	.26	Oklahoma	8.27	.94
Illinois	43.71	4.23	Wisconsin	3.04	8.39
Iowa	33.09	2.67			
Kansas	20.73	.44	All elevators	51.69	10 86

[1] The question asked was "Is it a custom to hedge your grain purchases?" The answers fell into four divisions: "Yes," "To some extent," "No," and "Only by flour sales," as appears from Table 73. In this discussion answers to the first two classes have been combined and those to the last two. The first two classes employ hedging in varying degrees, and hedging by flour sales is a type of hedging of radically different character from hedging in grain. (Vol. VII.)

[2] Appendix, Table 20.

[Table 76.]

Proportion of elevators reporting hedging in specified States in comparison with the proportion of commercial line elevators.

State.	Proportion of elevators reporting hedging to a greater or less extent.[1]	Proportion of commercial line elevators.	State.	Proportion of elevators reporting hedging to a greater or less extent.[1]	Proportion of commercial line elevators.
North Dakota	94.33	54.17	Indiana	16.05	31.59
Montana	89.54	49.90	Michigan	3.68	27.31
Minnesota	75.10	46.42	Ohio	12.62	21.75
South Dakota	71.75	43.37	Missouri	12.43	10.96
Nebraska	47.96	48.58	Oklahoma	8.27	20.57
Illinois	43.71	29.99	Wisconsin	3.04	13.60
Iowa	33.09	28.96			
Kansas	20.73	9.38	All elevators	51.69	36.01

[1] The question asked was, "Is it a custom to hedge your grin purchases?" The answers fell into four divisions: "Yes," "To some extent," "No," and "Only by flour sales," as appears from Table 73. In this discussion answers to the first two classes have been combined and those to the last two. The first two classes employ hedging in varying degrees and hedging by flour sales is a type of hedging of radically different character from hedging in grain. (Vol. VII.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Thursday, January 20, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

ADDITIONAL STATEMENT OF HON. GEORGE M. YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA.

Mr. YOUNG. Mr. Chairman, a number of men have attempted during the past two decades to bring the Chamber of Commerce of Minneapolis to the bar of justice. All attempts have failed to get hold of these monopolists who have fattened at the expense of both producers and consumers. They have always seemed to be able to exert sufficient influence to save themselves. Democratic and Republican attorneys general have alike failed to prosecute them.

It remained for the Equity Cooperative Exchange, St. Paul, to secure action upon the part of the United States Government, and to do what all others have failed to accomplish. Over three years ago John M. Anderson, Benjamin Drake, and other officials of the Equity Cooperative Exchange began one more attempt to bring the chamber to book. They filed a complaint with the Federal Trade Commission. This has finally resulted in the issuing of a complaint by the Federal Trade Commission against the Chamber of Commerce of Minneapolis, its officers and members.

Of course this resulted in a new tide of abuse against the members of the Federal Trade Commission and the Equity Cooperative Exchange. But they mean business, and are going through with it.

We shall soon discover whether these powerful men who compose the membership of the chamber of commerce are bigger than the law of the land.

Mr. Chairman, I now present to you for insertion in the record a very able and comprehensive brief prepared by Benjamin Drake at the instance of John M. Anderson, president of the Equity Cooperative Exchange, St. Paul. I hope every member of the committee will read it carefully. It is well worth study.

The CHAIRMAN. Do you desire to have that incorporated in the record?

Mr. YOUNG. I do.

The CHAIRMAN. Without objection, it is so ordered.

(The brief submitted by Mr. Young is here printed in full, as follows:)

BRIEF OF EQUITY COOPERATIVE EXCHANGE, OF ST. PAUL, MINN.

To the Agricultural Committee of the House of Representatives:

The Equity Cooperative Exchange, a cooperative association, desires to submit the following statement or brief relative to H. R. 14942, introduced by Hon. Halvor Steenerson, of Minnesota:

The bill referred to is intended to declare all grain exchanges public markets; to provide means and methods of regulation of such exchanges and their members; and to prohibit and prevent the habitual exclusion from membership and the general discrimination now practiced by such grain exchanges against cooperative associations engaged in the grain business.

The stockholders, patrons, and active supporters of our association, who number about half a million farmers, are in unqualified support of this legislation.

The reasons rendering such legislation necessary and imperative are well exemplified in the history of the relations which have existed for the past 15 years between our own cooperative association and the so-called regular grain exchanges, especially the Minneapolis Chamber of Commerce. These relations were quite fully presented and discussed at a hearing before the Rules Committee of the House of Representatives held in March, 1914. Our association respectfully directs the attention of your committee to the official report of the hearings held by this committee, which report is known as the report upon House resolution 424, of the Sixty-third Congress, second session. The attention of the committee is particularly directed to pages 118 to 177, inclusive, and pages 386 to 413, inclusive, of the above report, and we wish to incorporate the same by these references as a part of this statement.

As bearing upon the question of the attitude of the powerful organized grain exchanges toward producers' marketing organizations, we would also call attention to the following facts: In May, 1917, our association felt itself impelled to file a complaint with the Federal Trade Commission and against the Minneapolis Chamber of Commerce. The Federal Trade Commission gave 3½ years' consideration to this matter, and in December, 1920, issued a complaint against the chamber of commerce and others

The complaint alleges the Minneapolis Chamber of Commerce has for a number of years past been engaged in a continuous effort and conspiracy to destroy our association. That the chamber has sought to accomplish this end by the systematic publication and dissemination of falsehood and defamation; by causing litigation to be instituted and carried on in many instances; by depriving our association of market quotations; by carrying on a continuous boycott and refusing to purchase grain from our association and in many other ways therein set forth. We would, therefore, by this reference incorporate the complaint of the Federal Trade Commission as a part of this statement regarding the necessity of grain-exchange control.

It would, perhaps, be useless to encumber the record of this hearing with a detailed statement of the unprincipled struggle which the organized grain exchanges, and particularly the Minneapolis Chamber of Commerce, have carried on during the past 10 years in the vain effort to destroy the farmers' cooperative selling agency, which I have the honor to represent at this hearing. The published record of the hearing held on House resolution 424, and the complaint issued by the Federal Trade Commission, both of which are referred to above, are available for the use of every member of this committee, and give the details of this struggle and the reasons for the necessity of grain-exchange control in considerable detail. Our association will therefore content itself with a comparatively brief statement of the facts and principles involved.

All of the regular grain exchanges of the country are private industries. They are organized and carried on for the pecuniary profit of their members. They are concerned solely with the processes of marketing and give no thought to production or production costs. The unorganized and widely scattered producers neglected in the beginning to provide the marketing machinery. Seeing the need and sensing the opportunity, others provided the marketing machinery and have ever since caused it to function for their own profit. From the producers' point of view the system is fundamentally unsound; but the producers had no reason to expect anything else when they voluntarily permitted other interests to assume a natural part of their business. It can not even be claimed that the grain men have been more greedy than any other set of men would be if the same prerogatives and privileges were turned over to them. On the whole, considering their almost arbitrary power and the opportunities afforded, it must be conceded that the members of grain exchanges have conducted themselves with a certain degree of moderation.

Out of these privileges and prerogatives, so artlessly surrendered by the producers, has grown the present intolerant and intolerable attitude of grain exchanges. The exchanges now claim that they have a right to conduct the business of distribution free from public interference or regulation. The grain exchanges, they assert, are private corporations and private enterprises. Repeatedly, before an investigating committee of the Minnesota Legislature in 1913, the secretary of the Minneapolis Chamber of Commerce characterized it as a private enterprise with which the public had no concern. He and other representatives of the chamber likened that organization to a church or fraternal organization. They maintained that the public had no more concern with the rules, methods, or practices of the organization than it did in the rules or practices of any private club. The grain exchanges have reached a point where they not merely claim the right to conduct the producers' business of distribution, but claim this right free from regulation or control either by the producer or the public in general.

The present attitude of grain exchanges is closely paralleled by that of the railroads 30 or 35 years ago. The railroads at that time denied the right of the public regulation or interference. They claimed the right to fix and enforce all charges and rates; they asserted and practiced the right to discriminate as between shippers; they asserted the right to make and enforce all rules and regulations connected with the maintenance and operation of railroads, and stoutly argued that they were mere private industries and had a right to handle their business in their own way free from public interference or control. They argued that to submit to public regulation would destroy the value of their property. The grain exchanges make exactly the same claims to-day. Yet, in spite of these claims, the railroads are now subject to public regulation, and the propriety and necessity of such regulation universally recognized.

Let us consider a few specific matters which are typical of the entire subject. Let us consider the attitude of organized grain exchanges toward cooperative associations. No cooperative association is permitted to became a member of such grain exchange. No such association is a member of any organized grain exchange in the United States. The rules of all exchanges forbid such membership. Under these rules the payment of a cooperative dividend is construed a rebate of a part of the commission to be charged by the grain exchange member for handling grain. To permit cooperative membership, it is claimed, would destroy the integrity of the commission rule upon which every private grain exchange is founded. The claim is strangely like that of the railroads made years ago that to permit public regulation of rates would destroy their business and the value of their property. Each claim—the present claim of the grain exchanges and the former claim of the railroads—completely ignores the element of public interest. If the public interest demands, as we believe it does, that grain should be distributed at as low a cost as possible, if cooperative distribution can be effected more cheaply, satisfactorily, and efficiently than private distribution, is it desirable and is it fair to the public that the cost of handling should be arbitrarily maintained at a level higher than necessary in order that the members of private grain exchanges may continue to have large incomes and enjoy a virtual monopoly? This is the real issue involved in opening up the private grain exchanges to cooperative membership.

It is the old-time tragedy of a new, efficient, and economical system displacing an old one less efficient and less economical. The members of the private grain exchanges understand full well that as soon as the cooperatives obtain membership, the charges for marketing grain must be greatly reduced. They are fighting for the retention of an old and inefficient economic system which could not exist at all if the cooperative plan were once permitted to function in grain exchanges. The cooperatives, on the other hand, will not abandon efficient methods in order to maintain artificial charges or to impose unnecessary costs on the producers. Hence a virtual deadlock has been reached. The bill under consideration would break this deadlock by opening up the grain exchanges to cooperative membership and to competition.

As further showing the necessity of grain exchange control as provided in this bill we submit the following:

1. All of the organized grain exchanges of the country refuse to permit our association the use of their grain quotations. We are not permitted to have or use the ordinary "ticker" service which is furnished freely to other subscribers, including restaurants, pool rooms, and other places of public and semipublic assemblage. The Western Union Telegraph Co has informed us directly that the company was specifically instructed not to furnish us with this service. President Gates, of the Chicago Board of Trade, admitted before the "Committee of 17" that an exception to the rule was made in the case of our association, so that we could not obtain the service. The same exception would undoubtedly be made in the case of any other terminal cooperative marketing agency.

2. The Chamber of Commerce of Minneapolis for years has carried on a systematic campaign of defamation and falsehood against our association. This campaign has been carried on by the publication of false, misleading, and unfair statements in newspapers, periodicals, pamphlets, and grain exchange organs, and through oral statements and representations of members, traveling solicitors, and other agents and employees. Such statements and publications have falsely attacked the honesty, fair dealing, and financial responsibility of the association and its members.

3. Said chamber has systematically instigated, aided, and paid for litigation against our association, the intent of which was to cripple and destroy it. Examples of such litigation are that certain action in the United States district court, fourth division, district of Minnesota, wherein J. Emerson Greenfield and Samuel Crumpton, copartners, were plaintiffs; also that certain proceeding in the district court, third judicial district, North Dakota, wherein Fred Schmidt, J. Emerson Greenfield, and Samuel Crumpton were plaintiffs; also that certain other proceeding in said district court, third judicial district, wherein the State of North Dakota, ex rel. Henry J. Linde, its attorney general, was plaintiff. The defense of this litigation entailed an expense and loss of not less than $50,000, and it was carefully timed to destroy the association.

4. For the past eight years, with the exception of the period when Government war control was in effect, said chamber of commerce and its members have boycotted and continuously and persistently refused to buy grain from our association. Rules and regulations have been adopted by said chamber which effectually prevent such dealings. (See Circular No. 405 and Circular No. 634.) During the period when this boycott has been maintained, it is interesting to note that the members of said chamber have been in dire need of the grain, which they could have so easily obtained from our association. At times they have brought grain from the Southwestern States, imported it from Canada, and according to newspaper report, have even imported grain from Siberia to meet their needs.

5. Said chamber maintains a rule (see sec. 10 of Art. VIII of Rules) which, according to the express admission of J. J. McHugh, secretary, in testimony before the Minnesota legislative committee in 1913, destroys all competition whatever between members of the chamber, in bidding for and purchasing grain on track at country points for shipment to Minneapolis. (For admission of McHugh see p. 134, report on House resolution 424.)

6. Said chamber members by means of contracts and arrangements bidding country shippers to ship all or the greater part of their grain, in return for money loaned to move each annual crop, control and direct shipments, perpetuate their monopoly and enforce their unfair impositions and exactions. (See pp. 140–143, report on House resolution 424.)

7. The members of said chamber own or control all of the terminal elevator and storage space in the Twin Cities, and all of the cleaning, unloading, and conditioning facilities, except the elevator and facilities provided by our association. In the absence of adequate regulation such as is the purpose of this bill, it is not too strong a statement to say that for practical purposes the producers are altogether denied access to such facilities for their own uses and purposes. It is true that there are certain laws upon the statute books of Minnesota which are nominally intended to secure to the public the right to use the terminal elevator space and facilities owned by private individuals. These laws as now construed and enforced are absolutely ineffectual, and will continue ineffectual until there is adequate supervision of grain exchanges.

During the past year our association has cleaned and conditioned grain for its patrons, and in specific instances the enhanced value has amounted to over $500 per car. These profits under the present system now go to the members of the chamber of commerce who own or have access to elevators and cleaning facilities. Under a proper system of supervision, the net profits, after deduction of a proper charge, would go to the producer.

8. Under the present system, the buying interests completely control said chamber. The big mills and elevators own a numerical majority of all memberships, control all elections, make all rules, and man all important committees. These buying interests own and control at least 20 of the largest and most active commission houses of the chamber. Such commission houses are merely buying agencies for the interests which own and control them. The producer is therefore denied even nominal representation. Under a proper system of regulation the producer would be given real representation in the market. This is denied to him at present. (For detailed statement on this subject see pp. 136–137 of report on House resolution 424.)

9. We have already submitted to this committee a statement with regard to speculative future trading as carried on in grain exchanges. This statement was submitted

in connection with the future trading bills now under consideration. Federal control of grain exchanges would, in our opinion, go far to alleviate the evils of speculative manipulation as now practiced in grain exchanges. The present system of unlicensed and indiscriminate speculation is only possible because the grain exchanges have been able to avoid publicity. Wise regulations, combined with proper publicity, would go far to restore a normal condition where distribution would be the primary object and purpose of a grain exchange. At the present time grain gambling is the main business, the main source of revenue, and legitimate distribution is a mere incident or adjunct.

10. The following facts further illustrate, we contend, the necessity of public regulation of grain exchanges, if such exchanges are to perform a legitimate function in scientific distribution.

(*a*) Under the rules of the Chamber of Commerce of Minneapolis the members may make or amend any rule or regulation that they see fit. There is no appeal therefrom, and no limitation or supervision of the right to adopt rules and regulations.

(*b*) The various committees, acting in conjunction with the board of directors, have the right to construe and enforce any rule, regulation, or even custom of the association. A member may be suspended, fined, or expelled, and there is no appeal. There is not even an appeal to the general membership of the association, much less to a court of competent jurisdiction. The officials therefore have it in their power to to ruin any member on account of whim, caprice, or prejudice. No cooperative organization, under present conditions, would dare accept membership. Such organization might feel morally sure of sharing the fate experienced by the Minnesota Farmers' Exchange in 1903. This organization was first admitted to membership and then ruined. Elias Steenerson, a brother of the framer of this bill, was one of the original incorporators of the farmers' company. (For detailed story as related by Elias Steenerson, before the Minnesota legislative committee of 1913, see pp. 123-127 of report on House resolution No. 424.

(*c*) As evidencing the unwisdom, from the public point of view, of permitting grain exchanges to make rules and regulations in the absence of supervision or the right of appeal, we call attention to the rules of the chamber of commerce, set forth on pages 48, 49, 52, and 63 of the official rules revised to October 1, 1917, giving to one member a lien upon the membership of every other member for any amount owing, regardless of the cause of such indebtedness.

The effect of this rule was often to deprive the shipper of grain from recourse on an asset of substantial value, in the event of the insolvency of the chamber member before grain received had been remitted for. Even if the chamber member's claim arose out of sheer gambling transactions it had priority under this rule over the producer's claim for grain actually shipped to the insolvent member. It is true that the State of Minnesota has enacted legislation abrogating this rule. But such legislation was several times defeated and always vigorously opposed by the chamber of commerce. The rule still serves to illustrate the unwisdom of permitting grain exchanges to make and enforce rules without regard to their reasonableness or their effect on the public welfare.

(*d*) In the settlement of disputes between members and disputes between a member and a nonmember, when such nonmember consents, the general rules of the chamber give the directors power to adjudicate with the same force as a court of competent jurisdiction. The final judgment rendered may be filed in the district court of the State and execution issued thereon. These provisions increase the power of the dominant element in the chamber over the members.

(*e*) Rule X of the chamber of commerce recognizes the fact that manipulation of prices exists, and provides that in the event of manipulated values or prices, contracts negotiated on the basis of such values may be set aside by a committee which is given power to adjust prices on the basis of actual values and in disregard of the manipulated values set forth in the contract. In view of the fact that the chamber of commerce is completely controlled by the buying interests and the producer not represented at all in any real sense, it is needless to say that the power to set aside contracts as negotiated upon manipulated values is never invoked in aid of the producer or seller. It is simply for the protection of the big buyers—the mills and elevators. The buying interests possesses in this rule a perfect instrumentality for depriving the producer from receiving any benefit on account of prices manipulated upward. In the case of downward manipulation, where the loss comes out of the producer, the rule need not be invoked and never is.

(*f*) The instances cited above might be extended to considerable length. We believe, however, that enough has been said to show the necessity of grain exchange control, as contemplated in this bill, if the producer is to be protected and distribution conducted in an orderly, economic, and efficient manner. In closing we desire

to call the attention of the committee to the fact that several years ago the Provincial Government of Canada found it necessary to provide legislation for the control of the Winnipeg Grain Exchange. In the adoption of this legislation we will be merely following the precedent set by Canada.

Respectfully submitted.

BENJAMIN DRAKE,
Attorney for Equity Cooperative Exchange, Minneapolis, Minn.

The CHAIRMAN. Without objection, your letter will also be inserted.

Hon. G. N. HAUGEN,
Chairman Committee on Agriculture.

DEAR MR. HAUGEN. Will you kindly print in the record the letter of Mr. James A. Morrow, of Aberdeen, S. Dak., inclosed herewith; also copy of the instruction given by Judge Hale, of Minneapolis, to a jury, that certain trading on the Minneapolis Chamber of Commerce was a gambling transaction and directing the jury to bring in a verdict for the defendant?

Yours, sincerely, GEORGE M. YOUNG.

ABERDEEN, S. DAK., *January 21, 1921.*

Hon. GEORGE M. YOUNG, M. C.,
House of Representatives, Washington, D. C.

DEAR MR. YOUNG: Hoping that it may aid the cause of justice in the passage of the Capper-Tincher bill, I hereby place in your hands my testimony from personal experience of the evils of the grain trade as at present operated.

I used to try to believe, as Mr. J. W. Scott, of Grand Forks, N. Dak. professes that he does, and so thought I could make money more surely by "playing the market" than by farming the farm; so I entered the game of dealing in futures, which Mr. Scott testified is of such immense benefit to the farmers, and I met with the usual result. I took my medicine like a man until the firm with which I was dealing one day took advantage of a condition of temporary personal unfitness on my part (for which they were largely responsible) to manipulate a transaction whereby I lost heavily of funds in my control belonging to another person. Then I sued them in the Minnesota courts to recover certain winnings I had made previously which had never been remitted to me. And in face of the fact that the Minnesota laws declare that trading in futures is not gambling, and the Minneapolis Chamber of Commerce has likewise always so insisted, nevertheless, to save his client the payment which a verdict in my favor would have involved, the attorney for the defendant member of the Minneapolis Chamber of Commerce (Quinn-Shepherdson Co.) asked the court for and obtained an "instructed verdict" (a copy of which I inclose herewith) on the ground that "the transaction was a gambling transaction and prohibited by law." A suit is now pending in South Dakota courts, brought by my wife, and this same company which asked for and obtained an instructed verdict in Minnesota on the grounds that the transaction was a gambling transaction, now, in South Dakota, in their efforts to save themselves, enter the plea that the transaction was a legitimate one. Hence it would appear that members of the Minneapolis Chamber of Commerce gamble not only in grain futures but in State laws also, thereby emphasizing the advisability of establishing Federal control of the grain exchanges.

You will see by the foregoing that I know by personal experience that when Mr. J. W. Scott testified, "To my mind there is no place where a farmer can get a squarer deal than at the chamber of commerce," his "mind" was evidently weak on facts, that he is unaware of the crookedly double dealings to which prominent members of that organization can and do stoop without receiving any censure therefor from the officers of the organization, dealings whereby farmers are constantly being bled instead of being benefited.

And when Mr. Scott testified, "Some country elevators hedge and others do not. Many of those which do not protect themselves by the hedge are filled with grain and are confronted by failure," he could readily have known that he was stating something which was less than half a truth; that there are more farmers' elevators confronting failure because of their managers having listened to the siren voice of commission men operating in the interests of the Minneapolis Chamber of Commerce persuading them to sell stored grain and "protect" themselves by hedging on the market than there are confronting failure by holding such stored grain subject to the order of those who stored it and who are paying for the storage, though there are many elevators embarrassed by this situation because of the evils of the present grain

marketing system. The fact is that this system which is being insisted upon by the chamber of commerce is squeezing the farmers and their elevators from every angle, and it is high time that the Federal Government step in and establish a healthy change in the grain marketing system.

Trusting that this letter may not be too late to aid in crystallizing opinion in Congress so that the Capper-Tincher bill may pass, I am,

The combination of a drugged and shorn "lamb," an actual farmer and a member of a farmer's elevator which is in process of being shorn.

JAMES A. MORROW.

District Court, Fourth Judicial District.

STATE OF MINNESOTA, *County of Hennepin.*

REMARKS OF W. E. HALE, JUDGE OF THE ABOVE-NAMED COURT, IN DIRECTING A VERDICT IN CASE OF JAMES A. MORROW, PLAINTIFF, *v.* QUINN-SHEPHERDSON CO., DEFENDANT.

The COURT. The defendant has made a motion for an instructed verdict on the ground that it conclusively appears from the evidence that this transaction was a gambling transaction and prohibited by law. It becomes now a question of law for the court to decide, no matter how unpleasant it may be. One test is whether, if the case should go to the jury and the jury should find a verdict for the plaintiff on the evidence as it stands, the court would be warranted in sustaining the verdict.

I am satisfied, from all the evidence in the case, that the uncontradicted evidence shows that these parties were engaged in a gambling transaction. I do not relieve the defendant from this, either; it was dealing in puts and calls, on a margin; it was not intended or expected by the Quinn-Shepherdson Co. or by the plaintiff that this grain would ever be delivered. It was purely a speculation on what the market might be. If it went up, the plaintiff would win. If it went down, he would lose. One thousand four hundred was put into the same bag, so to speak, to be used in the furtherance of this scheme of speculating. The courts all over the country censure such transactions. They are immoral. A man gets something for nothing, if he wins. It is not an honest, straightforward transaction. There is too much of it in this country now. I am obliged to grant the motion that the jury find a verdict for the defendant.

This matter may be taken up by the plaintiff, as I suppose, before the chamber of commerce—which may be able to deal with it in a different way than the court is able to, and if there is anything justly and equitably due the plaintiff, they may be able to settle that, but the court has no such power. So you may bring in the jury and I will instruct them to find a verdict for the defendant.

Mr. GROVER. At this time we wish the record to show that we still object to the court directing a verdict, and take exception to the remarks of the court up to the present time.

(The jury was brought into court.)

The COURT. Gentlemen of the jury, in your absence counsel have argued a motion to direct a verdict in favor of the defendant, claiming that this transaction was a gambling transaction and under the law is immoral and can not be enforced. The court, after listening to the argument of counsel, has come to the conclusion that that is true; that the uncontradicted evidence shows it to have been a deal on margins and a gambling transaction which the law puts its foot on and leaves the parties right where it finds them. Parties engaged in an illegal transaction can not complain because the courts will not enforce it. So I have had a form of verdict drawn, which reads: "As directed by the court, we, the jury in the above-entitled action, find for the defendant." You will appoint a foreman and have him sign it.

A JUROR. I nominate Mr. Roach.

The COURT. That is the wish of the jury, is it?

A JUROR. I suppose we will have to accept the instructions of the court.

The COURT. I mean, you are satisfied that he shall sign the verdict? The jury don't assume any responsibility; it is all on the court. Then this is your verdict, gentlemen: "As directed by the court, we, the jury in the above-entitled action, find for the defendant. Dated January 21, 1919. (Signed) C. A. Roach, foreman." Gentlemen of the jury, is that your verdict? So say you all?

Mr. GROVER. At this time the plaintiff objects to the directed verdict and to the form of the same, and to the remarks of the court in making such directed verdict, and takes an exception to the said ruling

A stay of 90 days was ordered by the court.

W. M. HIGGINS,
Official Reporter, Minneapolis, Minn.

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Saturday, January 15, 1921.

The CHAIRMAN. The committee will now be glad to hear Mr. teenerson.

TATEMENT OF HON. HALVOR STEENERSON, MEMBER OF CONGRESS FROM MINNESOTA.

Mr. STEENERSON. I am here in support of H. R. 14667, an act to egulate grain exchanges—

That every organization within the United States, of whatever form or kind, maintaining or operating a regular place of business or trading room for members only, in which the members sell or exchange grain for themselves or others in interstate or foreign commerce, or buys or sells or ships or handles grain in interstate or foreign commerce, in accordance with the grain standards act of the United States or the grades and standards prescribed by the Secretary of Agriculture pursuant to or under authority thereof, is hereby declared to be a public market, and subject to the provisions of this act.

SEC. 2. That every such market, whether heretofore or hereafter organized, shall be open to membership, with equal rights and privileges with all other members, to any person, firm, company, or corporation desiring to trade in such commodity on such market who shall make application for membership and whose methods of business, operation, or plan of organization shall not conflict with or contravene any reasonable rule, regulation, or by-law of such market. All members shall be required to comply with all reasonable rules, regulations, and by-laws of such organization, which may include the payment of a reasonable membership fee and reasonable assessments equally applicable to all members. The words "company" or "corporation," herein designated shall include cooperative associations organized under the laws of the United States or of any State. Any rule, regulation, or by-law of such market which shall be designated or construed as controlling, limiting, or modifying articles of incorporation, constitution, or by-laws, of any association, company, or corporation in the distribution of its profits to its stockholders and members shall be deemed to be unreasonable and void.

SEC. 3. That every such organization which shall adopt any rule, regulation, by-law, or order of whatever kind or form, or which makes any order in violation of the provisions of this act, or which shall refuse or unreasonably delay to admit any such applicant to full and equal membership in such organization, or which shall refuse to trade or deal with any member or permit any member to refuse to so deal with any other member on an equal basis with all other members, or which shall adopt, prescribe, construe, or apply any rule, order, or regulation which shall have the effect of, or tend to avoid or violate any of the provisions of this act, is hereby declared to be a monopoly in restraint of trade and a violation of the antitrust laws of the United States, and further trading in said market or organization, either by the organization itself, or any member thereof, shall be unlawful.

SEC. 4. That whenever any such organization, or any officer or agent thereof, shall violate any of the provisions of this act, the Attorney General of the United States shall institute appropriate proceedings in the name of the United States to enforce compliance with the provisions of this act, and to restrain such organization and all members thereof from thereafter continuing in such violations and from any further trading in such market, either directly or indirectly.

I have looked over the laws of the different States. I was unable to find any law on this subject except in the State of Nebraska,

which was enacted in 1919, and was a law requiring the grain exchanges to admit cooperative societies, and I have used that as a basis for the drafting of this law by adapting it so as to make it applicable to those who operate in interstate and foreign commerce or buy and sell under the grain standards act, by authority of Congress, under grades and standards prescribed by the Secretary of Agriculture and thereby giving Congress jurisdiction over the matter, I believe.

The reasons alleged for excluding cooperative elevators and farmers' cooperative societies from admission to seats on the grain exchanges has been a rule which, I think, all of them have, requiring all members to charge a uniform commission and not to divide the commissions. That was interpreted by the Minneapolis Chamber of Commerce, and I think the Duluth Chamber of Commerce, to exclude cooperative farmers' societies, because they said they paid a patronage dividend to their members. That was construed to be a division of commission. That was the controversy that raged for many years between the Society of Equity up there, of which Mr. Anderson, I think, is the president and which Mr. Loftus, who is now dead, was manager. That controversy was carried before the legislature and they sought to get legislative relief, but failed.

I have been acquainted with the history of the first case of this kind that came up. Of course, you are all aware of the fact that cooperative organizations among farmers is a matter of recent development.

Some 20 years ago there was in my district organized a cooperative grain exchange of farmers, and it was composed of reputable men and they applied for a seat on the exchange of Minneapolis, and they were told they would have to buy a seat; and after a long time searching for a seller they finally found one, I think, at $4,500 or something like that.

All of these grain exchanges, chambers of commerce, or whatever they are called, have a limited membership, and in nearly all cases—Chicago, Minneapolis, and Duluth—the seats have all been sold long ago. So the only way you can get a seat is to find some owner who is willing to sell. This particular organization of which Mr. Elias Steenerson was president complied with all the rules of the Minneapolis Chamber of Commerce. They bought the seat and applied for membership, and (as testified to before the Legislative Committee) they were excluded because they were a cooperative society, and that they paid a patronage dividend. And that was the only reason. It is the pioneer case of its kind, and like most pioneer experiences theirs was a hard one, but if it will help to secure just laws for the future I am sure it was worth what it cost.

Mr. McLAUGHLIN of Michigan. And that was thought to be similar to a division of commissions?

Mr. STEENERSON. They construed it to be a division of commissions. The matter was brought before the legislature in a hearing and also was testified to before the Committee on Rules of the House of Representatives five years ago, I think it is. I have the printed testimony about that case and a large number of other cases of similar kind.

The question arose in a rather indirect way, in the Supreme Court of Minnesota, but, unfortunately, the facts in that case did not

that they were refused permission because they were cooperative societies, and therefore the court decided in favor of the defendant.

Mr. McLAUGHLIN of Michigan. On what point did the case go off?

Mr. STEENERSON. They charged they were a monopoly—the lawyers may have been negligent—I think it went off on a stipulation before the court. It looked to me as if they stipulated the case out of court because they did not put in that these parties were excluded because of that reason, nor did they put in that any party was excluded; and the court held it could not be a monopoly unless they excluded somebody.

They have held, however, in that State and several other States that these organizations are in the nature of private clubs; that they have the right to prescribe their own rules and regulations; and if that is given sufficient scope it amounts to the same thing, that they are authorized to exclude anybody they see fit.

I annotated before the Federal Trade Commission three years ago the testimony taken before the Committee on Rules, and I have got that book here, and I can have extracts made. A large part of this testimony deals with this exact question.

But I apprehend there is no dispute, really, over the fact that farmers' organizations of this kind are excluded for the reason indicated. It was made a political issue in Minnesota in the last campaign. The candidate for governor, in answer to the program of the Non-Partisan League, said that he was going to drop the cooperative societies, and the point was made that they could not be members of the chamber of commerce, and that the chamber of commerce would be a monopoly, would not be an open market; and in response to that, the candidate said that he would favor a law compelling them to admit the cooperative societies to seats on the exchange; and immediately the newspapers carried notices that the chamber of commerce itself was willing to modify the rules so as to admit farmers' cooperative societies, and that has been published throughout the country.

Mr. Wells, of Minneapolis, I think, this morning handed me this statement, and Mr. Wells is here, and I suppose it is correct. This is the resolution that the chamber of commerce recently passed [reading]:

Whereas inquiry has been by the Minnesota Department of Agriculture and others regarding the terms upon which farmers' selling agencies can secure admission to the Chamber of Commerce of Minneapolis; and

Whereas the attitude of the Chamber of Commerce of Minneapolis toward such farmers' selling agencies has not hitherto been formally stated by the board of directors: Now, therefore, be it

Resolved by the board of directors, That the following correctly expresses the basis on which farmers' selling agencies desiring admission to the Chamber of Commerce of Minneapolis can secure admission to the chamber of commerce and that this statement expresses what always has been the attitude of the Chamber of Commerce of Minneapolis toward farmers' selling agencies ever since its organization.

The qualifications required for admission to membership in the Chamber of Commerce of Minneapolis of farmers' selling agencies are precisely the same as for any other agencies, namely, it must appear that the individuals connected therewith, are honest men with a reputation for fair dealing. Second, the agency must furnish a satisfactory financial statement; and, third, it must agree under oath to abide by the rules of the chamber of commerce. These qualifications apply to all applicants for membership.

A farmers' selling agency organized by farmers' elevators in the Northwest should be in the form of a corporation. The local farmers' elevators interested in such selling agency may take stock in the selling agency in harmony with their average shipments, if they so desire, so that the dividends, if any, paid by the selling agency on the stock to the local farmers' elevators interested therein, would approximate quite closely to

a patronage dividend. The Chamber of Commerce of Minneapolis would have no objection to the distribution by the local farmers' elevators of the dividend received from the selling agency with any local profits on a patronage basis locally.

A farmers' selling agency organized as above could, however, pay dividends only to stockholders and in proportion to the amount of stock owned. Such farmers' selling agency would enjoy all rights and privileges possessed by any other member and would be subject to all restrictions and limitations applying to members generally. The attitude taken by the membership committees and board of directors toward the application of a farmers' selling agency would be precisely the same as toward any other application for membership; be it further

Resolved, That a farmers' cooperative elevator company, organized by producers at a country station, can secure membership in the Chamber of Commerce of Minneapolis on precisely the same terms as any other applicant for membership.

Mr. McLAUGHLIN of Michigan. Was the governor elected on that platform you mentioned?

Mr. STEENERSON. Oh, yes, sir.

Mr. McLAUGHLIN of Michigan. Those cooperative exchanges are not corporations under the Minnesota law, are they?

Mr. STEENERSON. Some of them are and some of them have capital stock, but the capital stock dividend is limited to ordinary rate of interest. Patronage dividend is paid on the amount of bushels that they furnish to be sold.

You will observe that this is an attempt on the part of the chamber of commerce to square themselves by saying they have always been willing to admit farmers' societies, but they themselves in this document here prescribe exactly what the terms shall be. The fact is that they have excluded them, and notwithstanding their statement there, I told Mr. Wells, who brought me that resolution, that they are repeating the same statement, that they had always been willing. I said I happened to know of the State case—my brother was the president of the farmers' association, and he testified to it, and his testimony is printed here; and Mr. Drake testified to it before the Committee on Rules here exactly to the contrary, and the rules themselves are printed in here, which, the way they are construed, show that they have not admitted these societies; and if they are to prescribe the conditions instead of the law as they propose it will be very difficult to get in. Therefore, my bill prescribes the rules and conditions upon which they should be admitted, and would not leave it discretionary in their case.

You remember Mr. Gates's testimony—because I did not hear all of it—but I was very much interested in one point, wherein he said it was not a monopoly. That is the universal statement of all members of the chambers of commerce, that they are an open market, and yet this committee, which I presume has heard so much of this testimony in the days gone by and is familiar with the organization and practices of these exchanges, know that in another sense they are monopolies, because nobody can buy or sell there unless he belongs to the organization, and here is what Mr. Gates said about it:

Mr. McLAUGHLIN of Michigan. Is it necessary for us in considering your bill to determine whether or not it is a monopoly?

Mr. STEENERSON. No; not at all. He said, "We admit no man who will not be a credit to the board."

The courts of Minnesota said that just as a fraternal society or religious society they can exclude anybody in their discretion, and those are the rules they have, and if we do not pass a bill something like this one which I have prepared they will simply say, "He will

not be a credit to the society," as I read here, and "we do not like to have them on the board."

Mr. McLAUGHLIN of Michigan. What do these associations want membership for?

Mr. STEENERSON. They want membership for this reason: They want to sell grain—the Chamber of Commerce is a market—elevators, milling, and warehouse corporations hold many seats. Van Dusen & Harrington, it appears, had 21 memberships; that they had elevator companies under all conceivable names; they could not tell they belonged to Van Dusen & Harrington, and they were subsidiaries of Van Dusen & Harrington, and they were some of them specially engaged as selling agents for grain coming from the country. They would receive this grain and they would sell it to another Van Dusen & Harrington subsidiary, and it was claimed here in the testimony that sometimes they sold it more than once. The first subsidiary would buy it from the subsidiary that received it, and, there being a fluctuation in the market, the same day they would sell it again.

The fact that not only Van Dusen & Harrington—they enumerated here a half dozen other corporations or many corporations—which owned seats; and some of the big banks owned several seats. So that the purchasing and selling of grain through these agencies is controlled by the milling trade and the grain trade to the exclusion of the producer.

Mr. McLAUGHLIN of Michigan. Take this Van Dusen & Harrington company, having these offshoots or branches, and so on—would there be a membership for each one of those?

Mr. STEENERSON. Yes; they testified they had 21 membership seats, and some of the others had almost as many, and they all have the name "Standard Elevator" or some other name of elevatoe companies—Russell & Co was one of the concerns which had a largr number of seats; and banks are allowed to have these seats.

Take the injustice of this theory that cooperative societies can not be admitted because it is a division of commissions. Van Dusen & Harrington have 21 corporations which they own, and they all earn on sales of grain. It all goes to the parent company and their stockholders, and it is a division of commissions just the same as the other, which was distributed under patronage dividend system.

Mr. McLAUGHLIN of Michigan. Very likely, but not necessarily. You might have stock in a large number of corporations, which are working independently; you might get dividends from each one.

Mr. STEENERSON. It is possible, but it operates in that way.

Mr. McLAUGHLIN of Michigan. Was there testimony to the effect that the profit of each one of these subsidiary concerns went into common fund, and then was divided?

Mr. STEENERSON. I do not recollect that, but they testified they were all subsidiaries of this parent company.

Mr. McLAUGHLIN of Michigan. Were they subsidiaries or did Van Dusen & Harrington simply have stock in several of them?

Mr. STEENERSON. They had the controlling interest.

Mr. McLAUGHLIN of Michigan. The controlling interest in each one—that appears in the testimony?

Mr. STEENERSON. Yes; that appears in the testimony; not only Van Dusen & Harrington, but a large list here.

I have, as you know, been very much occupied with my own Committee on Post Offices and Post Roads. I have not prepared any argument here; and to-day I have had an appropriation bill on the floor of the House which I was interested in, and I would like to have prepared a more elaborate argument, but I fancy that there have been others who have presented this case. I assume that some of these farm organizations have presented it—I hope so, anyway.

I will say this, that I attended farmers' meetings not so very long ago, and I referred to the fact that the Chamber of Commerce of Minneapolis had, through the newspapers advertised that they were going to admit them, just as stated in that paper I read, and one farmer got up and said: "Well, you better have a law anyway," and I agreed with him.

We had better prescribe, and so there is no doubt about it. They can not use their whims excluding people who are entitled to admission.

When these letters were proposed in the Legislature of Minnesota in the past, of course, the farmers were not organized, and the wheat raisers were in a small minority. But I recollect reading in the newspapers, and the objection, as I understood from newspapers and other reports, was that if Minnesota alone should pass such a law it would drive the grain speculating trade and grain hedging trade all to Chicago.

For that reason it seems to me that that argument is in favor of having a Federal law on the subject, in order that every grain exchange in the United States should by act of Congress be required. on such reasonable terms as may be just and as prescribed in this law, admit cooperative societies.

As I say, I have taken the law of Nebraska and adapted it so as to be suitable for an act of Congress, because we base this jurisdiction of Congress not only on the fact that they are engaged in interstate commerce, but they are also presumably submitting to the jurisdiction of the United States and Congress when they all adopt the grain standards of grades and operate under the Federal elevator law, and thereby acknowledge that it is interstate commerce, because those things apply to interstate commerce.

Mr. McLAUGHLIN of Michigan. I would like to know something about whether these cooperative associations, if they gain membership on a chamber of commerce, could carry out any of their fell purposes and destroy.

Mr. STEENERSON. I should be very glad to come back later and make a further statement, and I will leave these hearings before the Committee on Rules here, with an index I have prepared so it can be consulted readily.

STATEMENT OF MR. F. B. WELLS, OF PEAVEY & CO., MINNEAPOLIS, MINN.

Mr. WELLS. I am not here as a representative of the Minneapolis Chamber of Commerce, but as there does not seem to be anyone else here representing the organization, I will be glad to answer any questions. I am neither a director nor officer of the chamber of commerce. The sole objection to the admission of cooperative selling agencies is that they disburse their earnings on a patronage basis,

which amounts to splitting commissions. All of the exchanges, so far as I know, have an established commission rule, a minimum commission which can be charged for the handling of cash grain.

If a cooperative selling agency operating on a patronage basis, which means distribution of earnings according to the business furnished by an individual, is admitted to membership in a grain exchange, and is permitted to disburse its earnings on a patronage basis, it is equivalent to a splitting of commissions. In other words, after their overhead expense was paid, what remained would be divided up among their patrons.

There is nothing to prevent them from going outside and soliciting business and getting business on all sides from individuals other than members of their societies or associations, which would result in eliminating the regular commission merchant.

Mr. McLAUGHLIN of Michigan. There is nothing to forbid it. What is the practice? Do they not do business solely for their membership?

Mr. WELLS. No; they do business for anyone in the country. If the business of the cooperative selling agencies were restricted to their own members, and there was a substantial fee required for membership, I assume that there would be no objection.

I am not a commission man; I do no commission business whatsoever, and, consequently, the commission rule means very little to me, except this: That if you are going to permit splitting of commissions and the wild competition for business that will follow, you are going to seriously impair the stability of the commission houses; and to those commission houses is intrusted the handling of a tremendous volume of the farmers' grain in the Northwest.

The moment you impair their stability you are placing the farmer in an insecure position. That is the only reason which I know for the maintenance of the commission rule. The commission rule, as a matter of fact, has been upheld in the courts as being perfectly legal.

Mr. McLAUGHLIN of Michigan. The commission merchant doing business on the exchange must act independently, and each one carry through his own transactions and pay his own commission and keep it?

Mr. WELLS. Yes.

Mr. McLAUGHLIN of Michigan. Suppose several wanted to combine and split the commissions; what difference does it make?

Mr. WELLS. The commission merchants?

Mr. McLAUGHLIN of Michigan. Yes.

Mr. WELLS. That is all right; they can form a firm or partnership; but they are not dividing with the man who pays the commission. In other words, they are not dividing their profits with the man who pays the commission.

Mr. McLAUGHLIN of Michigan. No; of course. The man who pays the commission gives his money to the commission merchant, does he not?

Mr. WELLS. Yes.

Mr. McLAUGHLIN of Michigan. And the commission merchant can do as he pleases, keep it all or divide it with some one who helps in his transactions?

Mr. WELLS. Yes; but he can not divide it with the man who pays it.

Mr. McLAUGHLIN of Michigan. He can not give part of it back?

Mr. WELLS. No; that would be called "splitting commissions."

Mr. McLAUGHLIN of Michigan. I got the wrong idea about what splitting commissions is.

The CHAIRMAN. It is a sort of a rebate.

Mr. WELLS. It is a rebate, exactly.

Mr. VOIGT. I think in my State of Wisconsin we have a law which prohibits an insurance agent from giving a rebate to the insured.

Mr. WELLS. Yes; we have in Minnesota, also.

Mr. VOIGT. For instance, an insurance agent writes you a policy on your house. He gets probably on your premium 20 per cent. I have been in the insurance in my younger days, and I know it was customary for some insurance men, in order to get a big line of business from wholesale houses, for instance, that they would go to that house and say, "If you will give us all of your insurance, we will give you a discount of 10 per cent." Of course, that would put all the other agents at a disadvantage.

Mr. WELLS. That is exactly the same thing that would happen in the grain trade if you were allowed to remit a part of your commission to the shipper, and I believe the commission merchant would be going out in the country and offering as an inducement that he would give you back a quarter of a cent, a half cent, or split the commission with you, and that would bring the commission down to nothing and the stability of the commission merchant would be impaired. That is the reason for the whole thing.

Mr. TINCHER. Is there not some trouble going on about the Minneapolis Exchange?

Mr. WELLS. Some trouble?

Mr. TINCHER. Yes.

Mr. WELLS. I think not.

Mr. TINCHER. Some suit for unfair practices?

Mr. WELLS. If you wish, I will go into that sketchily just now. The organization which Congressman Young represented here, the Equity Cooperative Exchange, in the year 1913, at which time I happened to be president of the Minneapolis Chamber of Commerce, preferred charges before the State Legislature of Minnesota against the Minneapolis Chamber of Commerce, and a legislative investigation was ordered and took place. Charges were not upheld, and they gained nothing by the investigation. The Minneapolis Chamber of Commerce was given a clean bill of health.

Having failed in this, Mr. Mannahan, who was the attorney for the Equity Cooperative Exchange, brought the matter to the attention of the governor and attorney general in Minnesota, and they refused to take any action.

He then brought it down to the Department of Justice, and they refused to take any action. He then filed complaint, dated December 1, 1917, against the Minneapolis Chamber of Commerce, containing a number of charges, among others defending the good name of the Equity Cooperative Exchange, and that complaint was never acted upon by the Federal Trade Commission until December 1 of this year.

Mr. McLAUGHLIN of Michigan. 1920?

Mr. WELLS. 1920; at which time the complaint originally filed, which brought the charges against the officers and directors of the association in 1917—the complaint as originally filed, complaining of practices it was claimed existed three years prior to the original date

of the filing—was filed against the Minneapolis Chamber of Commerce under date of December 1, 1920; and that complaint embodies a good deal of what Congressman Young expressed here—his attitude and the attitude of the Equity Cooperative Exchange toward the Minneapolis Chamber of Commerce.

That complaint has not been heard yet. It was filed, as I said, December 1, 1920. The complaint is against the president and directors of the Minneapolis Chamber of Commerce, who held office on December 1, 1917.

Mr. TINCHER. Are you the Mr. Wells that Mr. Young has quoted?

Mr. WELLS. I am the Mr. Wells whom he quoted. During this legislative investigation to which I referred, I was on the stand most of the time for three months, being cross-examined by Mr. Manahan; and the reply which was cited in Mr. Anderson's brief was the reply to a hypothetical question propounded by Mr. James Manahan, and it seems hardly fair to me that my reply should be given without quoting his question.

I am quoted as saying that a group of speculators could get together secretly and conspire to affect the price, but they could not hold it there.

Of course, I can not remember the exact question, as it was years ago. But that was the reply to a hypothetical question and, of course, the same thing would be true in any business—a group of speculators could get together and conspire to increase the price of any commodity.

Mr. TINCHER. Did England buy any quantity in 1917?

Mr. WELLS. Unquestionably.

Mr. TINCHER. That proves Mr. Young's statement that they can do that?

Mr. WELLS. Yes, sir.

Mr. TINCHER. They bought and sold wheat?

Mr. WELLS. I do not think they sold in 1917—they bought all the cash wheat available and bought during a number of months prior to May large amounts of futures, and when May came around they made cash settlements with those shorts who were unable to deliver cash wheat on their sales, so I am advised.

Mr. TINCHER. They are keen merchants?

Mr. WELLS. The Liverpool merchants are the keenest in the world, so far as I know.

Mr. TINCHER. Did they do the same thing in 1920?

Mr. WELLS. Not so far as sales are concerned. In 1920, early in summer, the British Commission bought a vast quantity of wheat at times when our supplies were apparently low, and when no wheat was moving; and when the wheat available was tied up by lack of tranfportation. It is supposed they purchased early in the summer, because they were apprehensive of a possible coal strike, which materialized in part later which they thought might interfere with securing bunker coal for shipping. It might interfere with their ability to secure supplies of grain later on in the season.

Mr. TINCHER. There is nothing to hinder them coming in next summer and going on these exchanges and depressing the market by selling futures until they can buy cash wheat at the price they want?

Mr. WELLS. Nothing except the certainty that when they come to purchase back the futures sold they probably would run into a very decided obstacle.

Mr. TINCHER. This can be cited as one probably gambling in futures?

Mr. WELLS. "Speculating," we will call it. It is an abnormal condition; the whole situation is abnormal.

The CHAIRMAN. What is there to the statement made here that they can neither buy or sell on the exchange except through a member?

Mr. WELLS. He can not; that is, an individual can not go onto the board of trade and execute a contract himself; and there is a very good reason for it, and for Mr. Young's statement as regards the disinclination of the mills to buy from the producers.

The CHAIRMAN. That has reference to buying and selling futures. How about cash?

Mr. WELLS. Cash is the same way.

The CHAIRMAN. Can one buy from samples? Does he have to buy through a commission merchant?

Mr. WELLS. He has to buy through a commission merchant, but he can select the samples which he wishes to purchase.

The CHAIRMAN. He can not buy except through a commission merchant?

Mr. WELLS. No.

Mr. VOIGT. Did the English Government make any people settle this year—1920?

Mr. WELLS. No, not that I have heard of.

The CHAIRMAN. Thank you, Mr. Wells. Without objection there will be inserted in the record at this point a letter of Mr. F. M. Crosby, dated January 12, 1921; and letter of International Milling Co., dated January 8, 1921, bearing on matters subject to the hearing.

(The letters referred to above follow:)

SHOREHAM HOTEL,
Washington, January 12, 1921.

Hon. G. B. HAUGEN,
Chairman Committee on Agriculture,
House of Representatives, Washington, D. C.

MY DEAR MR. HAUGEN: It occurs to me in view of the evident desire of your committee to establish a proper definition of speculator and manipulator that the following may be helpful:

Speculator—One who deals under existing conditions as he interprets them but does not attempt to alter them.

Manipulator—A speculator who by reason of the large quantities in which he deals attempts to force artificial conditions or to exaggerate conditions for his own advantage.

I am offering this merely as a suggestion.

Thanking you for your courteous consideration, I remain,

Yours respectfully,

F. M. CROSBY

NEW PRAGUE, MINN., *January 8, 1921.*

Hon. WALTER H. NEWTON,
House of Representatives, Washington, D. C.

SIR: With reference to proposed legislation prohibiting or restricting trading in grain futures—

From the point of view of the milling business it seems to us that this would be very undesirable legislation. We think this is so because it would largely change the methods of handling our business and if we were unable to protect our open wheat contracts and flour contracts by hedging in the futures, it would, in order to cover the

increased risk, necessitate asking and obtaining very much wider margins than those on which the business is now done.

While this would not perhaps in the long run be a detriment to the milling business, in fact, the chances are that the net result of the milling business would be a greater profit, it would certainly disrupt all the present methods of doing business and without corresponding gain to the public generally. There are undoubtedly some evil practices connected with the trading in futures.

In so far as they are used for mere gambling by those who have not and never had any interest in either the grain or flour business, this is true. It seems to us, however, that in so far as they are used by a buyer, jobber, distributor, or a baker, or anybody else engaged in handling grain or its products, to buy their future requirements, it is entirely legitimate. Buying of this kind meets selling by the grain raiser, the country elevator owner, or the terminal elevator who own the grain or have it contracted for, and is entirely legitimate. It enables dealers of either class, that is, those who are engaged in buying and collecting the grain for future use and those who are engaged in selling and distributing it into consumption, to do business on comparatively small margins and without too great employment of capital. For instance, a baker who wishes, say in October, to insure himself a supply of flour during the months of December and January at a given price, can place the order through a mill. The mill can take the order and immediately buy some future option like the December option against the sale so made. If this could not be done the mill could only sell flour to satisfy the baker's future wants to the extent that it had the capital to buy the actual cash wheat at the moment. The tendency would be to restrict the buying during the fall of the year when marketing of wheat is heaviest, to the immediate needs during that period and keep out of the market those orders for future delivery which a baker or a flour dealer is willing to place.

If legislation could be devised which would make it impossible for anybody to deal in futures that intended only to gamble, it would undoubtedly be a desirable thing. But as this goes largely to a man's intentions and purposes, and these are hidden from everyone but himself, it would seem that it would be very difficult to prohibit one kind of transaction without prohibiting the other.

We believe that there is absolutely no question that in spite of a certain amount of evil connected with the dealing in futures that it serves an extremely useful purpose, and to either prohibit it entirely or place such restrictions on it as to make it difficult to do business in this way, would do much more harm than the amount of good which it was intended to accomplish. There is no question that it enables the distributer and consumer, as well as the milling and grain business, to handle these products on a much closer margin than could be done without them. It is perhaps a fact that the average price of grain during a given year would not be very different without future trading from what it would be as now handled, but we believe that it is certainly true that there would be a much wider difference between the price at which the bulk of the crop was marketed and the highest price obtained, than is now the case.

The reason for this is that it would restrict the buying when the crop was moving heavily after harvest, largely to those who have immediate use and need for the wheat, or who have the capital, credit, and storage facilities necessary to buy it, and wait until the distributing end of the business was able and willing to take their surplus. As these people could not hedge or protect themselves by future trading, they would naturally wait until the price was low enough so that they felt sure that they were justified in going in and buying grain that was offered with assurance of a profit. Under present conditions they can handle a large volume of this business at a few cents a bushel margin because they are protected from the speculative element by their hedges. They would still expect and require the same margin of profit, but they would have to have an additional margin to cover the danger of loss through the decline of the product which they are handling; a risk which they do not now take.

We presume all this is a matter you are entirely familiar with but believe it is a correct statement of the situation as far as the milling business is concerned, and as our business would be largely affected by any such legislation, we pass this along to you for what it may be worth.

Yours, very truly,

INTERNATIONAL MILLING CO.,
By F. A. BEAN, Jr.,
Vice President.

The CHAIRMAN. The committee will now stand adjourned until Monday morning at 10 o'clock.

(Thereupon, at 4 o'clock and 50 minutes p. m., the committee adjourned to meet 10 o'clock Monday morning, January 17, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Thursday, January 20, 1921.

STATEMENT OF HON. HALVOR STEENERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA.

The CHAIRMAN. We will hear from Mr. Steenerson.

Mr. STEENERSON. Mr. Chairman, I have very little to add to what I have already stated in support of my bill to require the grain exchanges to admit cooperative societies to seats or memberships. The proposition has been discussed throughout the United States, and I have received a great many resolutions and indorsements, and it is self-evident that if we are to encourage cooperative selling and buying and collective bargaining among farmers it will be necessary to allow them seats on the exchanges.

The objections that have been made are, to my notion, captious and unreasonable. It is simply on the theory that these grain exchanges shall be a law unto themselves, that they are, as they have claimed to be in the past, exclusive or close corporations, just the same as a social club or a fraternal society that exercises its discretion as to whom it shall admit.

Now, since the cooperative movement has been so greatly augmented in late yaers, and since the farmers of the United States look to that as a remedy for a great many of their grievances and the difficulties they now labor under, it seems to me that Congress ought to recognize the principle that a cooperative society, when it is willing to comply with the rules of a grain exchange—that is, purchasing a seat and obeying reasonable rules—shall have the privilege of membership.

Now, Mr. McLaughlin, when I spoke here before, wanted to know why. It is self-evident that a market like the Minneapolis or Duluth or Chicago market is controlled by the members of these grain exchanges; that is to say, everybody that buys, sells, ships, stores, or manufactures grain is a member of the grain exchange, and if you are a private party or a producer you can not sell to any member of the grain exchange and you have got nobody left to sell to. The rules of the grain exchanges, as you all know, prohibit them from dealing with outsiders. They deal among themselves.

The following matter was submitted by Mr. Steenerson and, by order of the chairman, is printed in full, as follows:

STATEMENT BY MR. BENJAMIN DRAKE, OF MINNEAPOLIS, MINN., BEFORE THE COMMITTEE ON RULES OF THE HOUSE OF REPRESENTATIVES.

The Chamber of Commerce of Minneapolis, as I expect to show the committee by the evidence at hand, is a monopoly and is operated as a monopoly, purely and solely for the benefit of the individuals who comprise that chamber, and as opposed to the interests of the producers that it is supposed to serve.

In the first place, the Chamber of Commerce of Minneapolis, in the words of its own secretary, who is present at this hearing, has practically no outside competition except the competition from the grain exchanges of Chicago and Milwaukee. Before the Senate committee to investigate the grain exchanges of Minnesota, Mr. McHugh testified as follows:

"The only competition, practically speaking, the chamber has is at Chicago and Milwaukee."

I do not know why he did not include the terminal at Duluth. That, to some degree, is in competition with the Minneapolis market, although it is closed during the season of navigation.

Duluth, Milwaukee, and Chicago are the only outside competitive terminals which the Minneapolis market has to contend with. So far as Duluth is concerned, for a long period of each year, from the 1st of December to the 1st of April, the market is closed because navigation is closed. So far as Chicago and Milwaukee are concerned, the difference in freight rates from points in North and South Dakota, many points representing large areas of country in both States, is such that Minneapolis really has no competition. The difference in freight rates from many of these points amounts to 6 cents per bushel and is in favor of the Minneapolis terminal; and within that margin, at least, the Chamber of Commerce of Minneapolis has absolutely no competition in the marketing of the producers' grain.

During the year 1912 the chamber of commerce, through its facilities, marketed almost 200,000,000 bushels of grain, which shows the extent of the operations of that private market place. It is the largest primary wheat market in the world. So much for outside competition.

I desire to call the attention of this committee to the internal rules and regulations and practices of the chamber; to its organization as a corporate entity. In the first place, the chamber of commerce is a private market place. This was the contention of its attorneys; this was the admission of its officials at the grain investigation conducted in the winter of 1912-13 before the senate and house investigating committees of Minnesota.

At this point I wish to introduce the testimony of these gentlemen. In reply to a question, the secretary of the chamber, Mr. McHugh, replied:

"The institution being a private corporation, there is no reason why its affairs should be published at all, any more than those of any other private corporation."

Again, Mr. Mercer, one of the attorneys for the chamber, made this declaration of the position of the chamber organization:

"It is not a public business at all. The only thing is that there are certain rules given them there in the statute which exist in the other laws. And so far as their arbitrating their differences are concerned, we have shown you here before the committee the way that is handled, in order to get control of the members, to be sure they will operate properly with everybody they deal with, is upon the application which they make and an agreement which they sign at the time they become members. And the supreme court—I can show you the case—has held that is the theory on which those rules are enforced under the laws of the State.

"Mr. SCHWARTZ. Is there any concern or house that has so much secrecy connected with it as this seems to have?

"Mr. MERCER. Why, certainly, the Supreme Court in that Evans case, 86 Minnesota 448, points out that it is a corporation in the nature of a fraternity or beneficiary association. Now take the Gunderson order for instance——

"Mr. MANAHAN. That case didn't bring up these issues.

"Mr. MERCER. Oh, yes, it did; something in that same line of the power to enforce the rules. Take your Gunderson order putting church or any organization——

"Mr. BENDIXEN. That is different.

"Mr. MERCER. Not at all different."

The contention repeatedly made and maintained all through these investigations was that the chamber of commerce was a private market place, and that the producers tributary to that market had no more interest in the rules, practices, or customs of its members than they would in those of any other private corporation.

Now, then, as further evidencing the position of the officials upon this point, in a newspaper article, over the signature of John J. McHugh, the secretary, published in the Improvement Gazette, of Minneapolis, for October 31, 1913, he said:

"The Chamber of Commerce of Minneapolis, therefore, like church corporations or fraternal societies, is a voluntary corporation in the form of a private corporation."

Every operation of the chamber of commerce in the past has been shrouded with all the secrecy which could be commanded. The very book of rules bears upon its face the words, "For the use of members only."

No publicity whatever that could possibly be prevented has ever been permitted of the affairs of the Chamber of Commerce of Minneapolis. What are some of these rules and practices, of which the public never heard until the Minnesota Legislature undertook the investigation of the subject last winter?

Under the rules of the chamber, the board of directors have the absolute and arbitrary power to fine, suspend, or expel any member for the violation of any rule, any regulation, or even any custom of the association.

Mr. McHugh, in the article in the Gazetteer, which I have above quoted, says:

"It is comparatively easy for the board of directors to secure obedience to the rules of the organization on account of the fear of suspension or expulsion in case of violation of the rules."

So the chamber organization has arbitrary and absolute control over the actions and conduct of its members. The organization was organized 31 years ago. As organized, it was organized simply as an adjunct and purchasing agency for the Minneapolis millers. The Minneapolis millers were located there around the power site of St. Anthony; they desired to secure a constant and assured supply of grain; for that purpose they organized the Chamber of Commerce of Minneapolis. At the beginning it was controlled by the millers exclusively. A short time afterward, when the great elevator system sprang up, which has been so well described by Mr. Greely, as existing at Chicago, it came to be controlled by a combination of millers and elevator men—both, gentlemen, you will notice, interests which are consuming the grain of the farmers and which are antagonistic to those of the producer.

In the beginning the membership of the chamber of commerce was limited to 550 members. It has never been increased by a single membership. All of the memberships have been sold out for more than 15 years past. The grain trade has increased at least fivefold, but the organization has never permitted a single new membership to be added to its limited membership of 550. For 15 years one has not been able to buy a membership unless some member happened to offer one for sale. Even after buying one, it can not be used unless the individual is formally admitted by a vote of the board of directors, and the board of directors of the institution, even after an individual has bought his membership, can refuse to allow him to use it for any reason or any whim or any caprice which may actuate them; in such case there is no appeal either to the membership of the institution at large or to any court of competent jurisdiction or in any other way from the action of the board of directors. In other words, they can and do exclude, and have always excluded, everybody whom they do not want to transact the grain business at the Minneapolis terminal, no matter what his qualifications, moral character, or business standing.

I wish to call attention to an incident which aptly illustrates the viciousness of this last provision, and also the viciousness of several other rules and practices of the chamber of commerce. But, first, in the organic act under which the chamber was organized there are some peculiar provisions. In the first place, the board of directors of the association has a right to adjudicate differences and disputes between members, and also between a member and an outsider, provided the outsider consents; and when so adjudicated the judgment of the board of directors can be filed in the district court of Hennepin County, wherein the chamber of commerce is located, and when so filed has the full force and effect of a judgment in a court of competent jurisdiction; execution will issue upon it in the same way as upon the judgment of a regularly constituted court. The chamber of commerce is a court, trying its cases in secret.

Again, under the organic act, in the event of indebtedness, every member has a lien upon the membership of every other member, which is prior, superior, and paramount to the claim of any individual outside of the chamber to whom money may also be owing. It is to this provision that I now wish to call your particular attention.

The CHAIRMAN. Let me ask you a question right there. You mean a special act of the legislature chartering this board of trade?

Mr. DRAKE. Yes, sir.

The CHAIRMAN. And that this lien is on the membership in the chamber and not on any property?

Mr. DRAKE. Just upon the membership—the money value of the membership—yes, sir.

The CHAIRMAN. What is the money value of the membership now?

Mr. DRAKE. The money value of the membership now is about $3,500. I will stand corrected if I am not correct. It has run as high as $5,000, and is now about $3,500. I believe the memberships are lately at a slight discount.

I call the attention of the committee to this incident: In 1903 the farmers of Clay County, Minn., organized what was known as the Minnesota Farmers' Exchange. That exchange was incorporated and sought to market its own grain at the Minneapolis

terminal. This story may be of peculiar interest to this committee by reason of the fact that Elias Steenerson, a brother of Congressman Steenerson, of Minnesota, was one of the directors of that organization formed in 1903. These farmers were of the opinion that they could buy a membership in the Chamber of Commerce of Minneapolis, come down to the chamber, and market their own grain. They thought there was a free and open market in Minneapolis. They sent their representative down to the Chamber of Commerce of Minneapolis, and they found out that they must first obtain a membership before they could do business. When they sought a membership they found that all the memberships were sold and had been sold for a number of years past. Finally, after waiting for weeks, they found an individual who was ready to sell his membership for $4,200. They bought this membership. They then thought they could do business upon the chamber of commerce. But then they were confronted by the rule that they could not do business until they were admitted by a vote of the board of directors, and the board of directors of the Chamber of Commerce of Minneapolis refused to permit the farmers' organization to do business, even after it had secured and bought a membership, because it was a cooperative institution.

All of this time the grain of the Minnesota farmers' exchange had been accumulating. They found it necessary to market it. Therefore, they went to a member of the chamber, McKinnon & Son, and engaged this firm to market that grain for them, to pay them the usual commission for the service. McKinnon continued to market the grain for some time. Finally, at a time when he had in his possession 12 carloads of grain belonging to the farmers of Clay County, at such a time he failed, and as the evidence shows, he failed, it is claimed, largely because of speculating or gambling transactions with the firm of E. L. Welch. E. L. Welch is one of the men who is here to-day representing the Chamber of Commerce of Minneapolis. McKinnon failed because of gambling transactions with Welch's firm. Welch, by virtue of that privilege, secured to the organization by the organic act of the law of Minnesota, first seized McKinnon's membership, and appropriated that; and then in some way or other he got the grain—the 12 carloads, which the farmers of Clay County had shipped in to McKinnon & Son, and which had been turned over to Welch. So that all the farmers got out of their 12 carloads of grain was a deficit of some $12,000.

The directors of the organization each raised $1,500 apiece, each going into his own pocket, paid off the owners of the grain, the shippers; and the association went out of business.

That is the story of the first attempt to market grain upon a cooperative basis at the Minneapolis terminal; and I call attention to the fact that the man who broke the Farmers' Exchange of Minnesota is here to-day representing the Chamber of Commerce of Minneapolis.

It was my intention to read a portion of the testimony of Mr. Steenerson, in which he narrates the story of the Minnesota Farmers' Exchange, his sworn testimony, but in view of the fact that I have given it in substance, I am simply going to ask that it be incorporated in the record and made a part of the records of this committee.

The CHAIRMAN. It will be so ordered.

(The testimony here submitted by Mr. Drake is as follows:)

[Elias Steenerson, House committee, pp. 241-243.]

"Mr. ELIAS STEENERSON, being duly sworn, testified as follows:

"By Mr. MANAHAN:

"Q. What is your name?—A. Elias Steenerson.

"Q. Where do you live?—A. Crookston, Minn.

"Q. How long have you lived there?—A. It is 36 years since I settled in Cooke County.

"Q. What has been your business during that time, generally speaking?—A. Farming and various other kinds of business. At present I am postmaster at Crookston.

"Q. You have been engaged in farming?—A. Some of the time.

"Q. You have been engaged in the grain business? In the elevator business?—A. I have never dealt in grain; simply shipped my own grain.

"Q. Have you ever had any experience with the chamber of commerce at Minneapolis?—A. Yes.

"Q. With whom did you have those transactions that you speak of?—A. I was connected—I took an interest with the farmers in a corporation for the purpose of handling grain at the terminals. Sent a man down to the terminals to sell our own grain.

"Q. What was the name of that corporation?—A. The Minnesota Farmers' Exchange.

"Q. Incorporated under the laws of Minnesota?—A. Yes, sir.

"Q. You were one of the incorporators and one of the directors?—A. Yes, sir.

"Q. Your plan of operation was to send a man down to Minneapolis?—A. Yes, sir.

"Q. To represent you on the exchange?—A. Yes, sir.

"Q. Who did you send?—A. J. S. McDonald, secretary of the organization.

"Q. To represent your corporation?—A. Yes, sir. The Minnesota Farmers' Exchange.

"Q. When was that?—A. I believe it was in 1904.

"Q. Was he a member of the chamber of commerce, or did he have a place on the chamber?—A. No; we did not suppose that it was necessary, in order to sell our own grain, to be a member of any other organization than our own, but we found that there were no facilities for selling our own grain. It was all centered in the chamber of commerce. All grain dealers were members of the chamber, and in order to sell our grain it became necessary to become a member of that organization.

"Q. You found when you got there the chamber of commerce controlled the situation, and it was impossible for your agent to dispose of the grain there?—A. Yes, sir.

"Q. Then what was done?—A. We made application for membership in the chamber of commerce.

"Q. What happened to that?—A. We found that the memberships of the chamber of commerce were sold, and they told us that in order to get a membership we would have to buy one from some one that has one for sale. We looked around. It was said there always was somebody who had one for sale. We finally found one who was willing to dispose of it. We made arrangements to get it. If one buys a membership, he will have to apply to the board of directors of the chamber and be passed upon whether they will be allowed to become members, even if he has bought his seat. When they took up the application, they refused to let us have a seat, even though we had purchased a membership.

"Q. After you had purchased it?—A. Yes, sir.

"Q. In whose name did you make application?—A. I am unable to remember that.

"Q. Whether it was in the name of the secretary or by the company itself, you made application for a seat on the chamber, which was refused?—A. Yes, sir.

"Q. Was this man McDonald a man of responsibility, and an intelligent man worthy of a place?—A. Yes, sir.

"Q. He was refused the membership on the ground that he represented a cooperative association?—A. Yes, sir; I think that was their main objection.

"Q. Then what did you do?—A. By this time, the grain shipments came through the association.

"Q. Through what association?—A. Through the Farmers' Exchange, and the secretary made arrangements to turn it over to someone who was a member of the chamber of commerce.

"Q. Do you remember who that was?—A. Alexander McKinnon & Son.

"Q. Then, as I understand you, McDonald in representing your exchange made arrangements with this member on the chamber that they should dispose of your grain?—A. Yes, sir.

"Q. McKinnon disposed of the wheat turned over to them by McDonald representing the Equity?—A. The Farmers' Exchange; yes, sir.

"Q. What happened then?—A. It ran on a while, then it turned up that there were 26 carloads of grain came in, turned over to McKinnon, and he turned them over to E. L. Welch & Co., another member of the chamber of commerce.

"Q. Then what?—A. McKinnon failed.

"Q. Failed? He went broke?—A. Yes, sir. The grain was by Welch credited to McKinnon's account. McKinnon was in deep to E. L. Welch.

"Q. As I understand you, when McKinnon failed he was indebted to Welch?—A. Yes, sir.

"Q. And he turned over these cars to E. L. Welch instead of paying you for your grain; simply appropriated the money and applied it on McKinnon's indebtedness to him?—A. Yes, sir.

"Q. How much was it?—A. Something over $12,000.

"Q. Then what happened?—A. We looked into what we could do. We asked Mr. Welch to pay us.

"Q. Welch knew it was your wheat?—A. Yes, sir.

"Q. You took up with Welch for your money?—A. Yes, sir.

"Q. What did Welch say to you about it?—A. I never heard. It looked to me like a shell game. I then went to the chamber of commerce and wrote to them to get their rules. I got that and looked it up and found they were organized under the statutes, which gave them a right to exist as a chamber of commerce and the act gives

them the authority for the purpose of inculcating principles of justic and equity an: trade.

"Mr. MANAHAN. They got, not only justice and equity, but they got Steenerson's wheat.

"Q. The wheat was turned over to McKinnon & Co., a member of the chamber of commerce?—A. Yes, sir. The member of the chamber of commerce who sold the wheat got not only the wheat, but he also kept the membership that McKinnon owned

"Q. And Welch kept McKinnon's membership?—A. Yes, sir.

"Q. Your society or exchange brought the matter right up to the chamber of commerce?—A. Yes, sir. I studied this organic act and their laws and regulations and thought to myself, if they were sincere in their motives and wanted to follow out the principles, that they would possibly assist us to get this wheat paid for to the original shipper and in order to give them that opportunity, so I took it up with the chamber of commerce by correspondence and explained to them the situation to lend us a helping hand. We had several letters with them and they finally staved it off."

Q. Then that was the final communication to you from the chamber of commerce?—A. Yes, sir.

Q. Did the chamber of commerce ever attempt to right the wrong of the transaction which you have stated to the committee?—A. No; they have not.

Q. They simply, on advice from their attorney, referred you to the railroad and warehouse commission?—A. Yes, sir.

Q. Did you put it up to the railroad commission?—A. I do not remember.

Q. What further was done, if anything? Did the farmers ever get paid for their wheat?—A. Yes; there were nine directors of us and eight of us put up $1,500 each to pay for the wheat. The directors paid the farmers for the wheat.

Q. Did the directors ever get anything back?—A. No; I never got anything back, only what this farmers' exchange finally had to liquidate and dispose of the property and they paid 25 per cent, and I took that and let it go.

Q. The farmers' corporation, it broke them?—A. Yes, sir.

Q. And they paid the directors part of the money they advanced for the wheat?—A. Yes, sir.

Q. Did you ever get any of it back from E. L. Welch & Co.?—A. No, sir.

By Mr. TEIGEN:

Q. Do you consider to-day, in your mind, the only reason why your farmers exchange was broke up and destroyed from doing business was the fact that you never got returns from the chamber of commerce for this wheat?—A. Yes, sir; that was the reason.

Further, as showing the power of this organization, and its methods, there are at least 400 traveling agents, solicitors of the different firms of the chamber of commerce. These traveling agents, before they are permitted under the rules of the organization to represent a grain firm, are obliged to sign an agreement, which is set forth in the book of rules of this organization, wherein and whereby they agree to be bound by the rules customs, and regulations of the association, in the same way that a member is. So that all of the employees of this organization are subject to the same disciplinary measures as the members themselves. This regulation is set forth in the book of rules under what is known as Circular No. 286. The practical effect of this is that no traveling agent, no matter what the provocation, dares to say anything derogatory to any member of the chamber of commerce; but, on the other hand, this body of employees traveling over the Northwest, visiting the managers of farmers' elevators as often as they possibly can, are as a rule pouring out their false accusations against the Cooperative Exchange at Minneapolis. These solicitors are a part of the machinery of this great monopoly, this grain combine, whereby it is seeking to crush and throttle the Cooperative Exchange, through the instrumentality of the abuse and villification of the majority of these traveling agents or solicitors—all who will stoop to do the bidding of the combine.

Starting as the chamber of commerce did, with only 550 memberships, it at once adopted the policy of permitting any individual or any firm within its membership to buy and own as many memberships as his or its money could buy; at the same time the big firms, the milling firms and the elevator firms, began to organize subsidiary and affiliated companies.

These in turn accumulated as many memberships as they could in each instance so that to-day we have the spectacle of the Van Dusen-Harrington Co., supposed to be a commission house, but owning as subsidiaries terminal elevators and country line elevators. We have the spectacle of the Van Dusen-Harrington Co. and its six subsidiary companies owing 21 of the limited memberships of the chamber of commerce and Mr. Ewe, one of the managing heads of that great company, with its subsidiaries is here to represent the chamber of commerce. We have the spectacle of the Wash-

burn-Crosby Co., with its numerous subsidiaries, owning 24 of those limited memberships; the F. H. Peavy Co. owning 8; the E. S. Woodworth Co. owning 9; the Pillsbury Flour Mills Co. owning 9; the McCaul-Dinsmore Co. owning 7; the E. L. Welch Co. owning 7; T. M. McCord Co., 9; the Big Diamond Mills Co. owning 10, and so on.

Every one of these companies which I have described, gentlemen, is either in the milling or the elevator business; and some of them are in the milling, the elevator, and the commission business combined.

In addition to permitting these companies to own, vote, and control as many memberships as their money can buy, I wish to say that it is beyond all peradventure that 40 of the companies of the chamber of commerce own and vote an actual majority of all the memberships within the organization.

The organization has also adopted the policy of tucking away a membership wherever it will do no harm and wherever it may do them some good. In this way the banks of Minneapolis own eight memberships, the Minneapolis Gas Light Co., a public service corporation, owns two; the Soo Railroad owns one; the Gluck Brewery Co. owns one; a hardwood manufacturing company owns one. But, never in the whole history of the institution has a cooperative organization been permitted to own a single membership. They are prodigal so far as the public-service corporations are concerned, prodigal to the point that they permit a single member to own and vote 24 memberships, but they will permit no cooperative organization to own a single share. And at Fargo, in North Dakota, on the 3d of July, 1912, and again at Sioux Falls, S. Dak., about the 16th day of December, 1913, at the latter place in the hearing of many of the men here to-day, Mr. McHugh, the secretary of the chamber of commerce, stated boldly that a cooperative association would not be permitted to own a share or to do business upon the floor of the chamber of commerce.

I wish to say on that point further, as showing the manner and method in which this monopoly is entrenched, that outside of the eight memberships which are owned directly by the officers of banks in Minneapolis, considering the two largest banks of the city of Minneapolis, a majority of its board of directors of one are members of the chamber of commerce. Taking the next bank in order of importance, 13 out of 30 of its board of directors are members of the chamber of commerce; and of still another bank six members of the chamber of commerce.

I simply call attention to these facts, in order to show the means by which this monopoly ramifies its control, reaches out and attempts to control even the credit of its competitors.

I am going to do an unlawyerlike thing and here anticipate in a measure a defense of the chamber of commerce. Mr. McHugh has said upon many occasions—and I find this in an article written by him—that a farmers' elevator company in North Dakota has been a member of the chamber of commerce for many years. This claim appears upon the patent insides of many newspapers. This is not a fact. It is true that the Farmers' Grain Co., of Devils Lake, N. Dak., holds a membership in the chamber of commerce, but it does not use it. It does its business through some other member. More than that, it is not a farmers' organization at all; it is an aggregation of capitalists, a corporation incorporated for the sum of $250,000 and owning 18 old-line elevators at 18 different points in North Dakota. I have in my possession, here exhibit, but will not offer it in evidence, the report of a commercial agency which shows that these are the facts.

At the investigation held in St. Paul, Minn., during the winter of 1912-13 the secretary of the organization was unable to show a single directorate in the entire 30 years' existence of the organization which had not been made up of a majority of the big millers and elevator men. In other words, these interests have always controlled the Chamber of Commerce of Minneapolis, and if the committee will inquire into the situation, I think you will find that practically every abuse which the producers complain of to-day is the result of this control of the organization by the millers and elevator men, interests which are antagonistic to those of the producers. These buying interests are interested in getting the grain as cheap as possible, and all of their rules and their practices are framed with this in view.

* * * * * * *

Another device by which competition has been further eliminated in the Minneapolis Chamber of Commerce's private market, is this: They have instituted there a system of subsidiary ownership, a system of interlocking directories and officials of the various companies, the milling companies, and the elevator companies, on the one hand, and the commission houses on the other. I make the charge, and I defy any of the members of the chamber of commerce to disprove it, that the commission companies which are supposed to represent the farmers—God save the mark—at the Minneapolis terminal—the commission houses, the large ones handling more than

one-half of the consigned grain that comes into that terminal, are absolutely owned by the milling and elevator interests which buy the grain. This is not an unsupported charge. But, first, the duty of a commission merchant, of course—it is almost an insult to the intelligence of this committee to suggest this—but I would say, the duty of a commission merchant is one of fidelity. He is bound in law and bound in business honor to get the best price he can for consigned grain, and to sell it to the best possible advantage. He has no right to sell it as a subsidiary to a company with which he is affiliated. That is wrong.

Then what is the meaning of this community ownership by big mills and elevators of Minneapolis, of the commission houses, under names which suggest no connection whatever, and which connection is absolutely unknown by reason of the secrecy by which this institution has been able to enshroud itself? I wish to make this statement on the matter. Prominent among these subsidiary groups is the Van Dusen-Harrington group, a group which is represented here to-day by Mr. Ewe, one of the three men who constitute the managing head of that group of subsidiaries. It consists first of the Van Dusen-Harrington commission house, which is one of the largest commission houses upon the floor of the chamber of commerce. In addition it owns all the stock of the three terminal elevators in Minneapolis—the Star, the Crescent, and the Pioneer Steel. It also owns the National, the Atlas, the Interstate, and the Van Dusen elevator companies, all of which are old-line elevator companies, altogether comprising more than 300 line elevator companies. This concern, as shown at the Minnesota investigation, sold grain consigned to it to its own subsidiaries. During the month of January, 1913, as shown by the records of that investigation, this commission house receiving the grain impressed with this trust to secure the highest possible price for it and owing the duty of fidelity to its principal, this commission house sold to its own subsidiaries 197 cars of grain in one month.

Mr. Ewe, who is here, also testified that when the miller sent in an order for grain and they were able to fill it out of their own receipts of consigned grain, they would charge a commission both for selling and for purchasing that grain. The Van Dusen Co. is one of the large companies; it owns, controls, and votes 21 of the limited memberships in this close club known as the Minneapolis Chamber of Commerce.

Another subsidiary group is the Washburn-Crosby Co., of which Mr. Crosby, president of the chamber of commerce, is a prominent member. These subsidiaries include the following, which the Washburn-Crosby Co. owns or controls by a system of interlocking directors: The St. Anthony, the St. Anthony & Dakota, the Imperial, the Huhn, Rocky Mountain & Great Western elevators, and the Great Western Grain Co., the Barnum Grain Co., and the Brown Grain Co. The last two named companies are commission houses. Each is a subsidiary of the Washburn-Crosby Co., with officers practically identical with the parent company. During the past summer this company issued a statement showing that of its total assets over $100,000 was at the time owing from other Washburn-Crosby subsidiaries, which would seem to indicate a healthy and flourishing condition of business between this company and its subsidiaries. It is also probable, it seems to me, that the Heising Grain Co., another commission company, is owned by the Washburn-Crosby group. This group owns and controls 24 of the chamber's limited memberships.

Another group is the Big Diamond Mills Co. This milling company owns the following subsidiaries: The Commander Mill Co. and the Commander Elevator Co., the Midway and Powers and Sheffield elevator companies. It also owns or controls the Gregory-Jennison Co., a commission house, and one of the large commission houses on the floor of the chamber of commerce.

In a similar way the McCaul-Dinsmore commission house also owns or is affiliated with the McCaul-Webster and Hawkeye elevator companies.

E. S. Woodward & Co., a commission house, is also in the elevator business, as the Concrete and Woodward elevator companies bear witness.

E. L. Welch & Co., a commission company, is affiliated with or owns the Security Elevator Co., and is also interested in a mill at Fairfax, Minn. Mr. Welch is here to-day representing the chamber of commerce.

The T. M. McCord Co. is affiliated with the Merchants' Elevator Co.

The Nye, Jenks Co. is affiliated with the Itasca Elevator Co. and the Calumet Elevator Co.

The Standard Grain Co. is affiliated with the Federal Elevator Co.; the Cargil Commission Co. with the Victoria, and E. E. Moers, Superior Terminal, and Montana Central Elevator Cos., as well as the Minneapolis Seed Co. and the Tri-State Implement Co.; the W. H. Poehler Commission Co. with the Pacific Elevator Co. The Kellogg Commission Co., generally speaking, is manned by the same men as the George C. Bagley, Royal, Atlantic, and Homestead Elevator Cos. W. D. Gregory, of the firm of Gregory-Jennison Co., is also president of the Carter-Sammis Co., a commission house, and is also president of the Powers Elevator Co. The Hatton Grain

Co., a commission house, is owned jointly by the Northwestern, St. Anthony & Dakota, and Andrews Grain Co., and the Washburn-Crosby Co. I have some others on my list, but I shall not read all of them. I will say, however, that the Quinn-Shepherdson Co., a commission firm, owns Elevator D on the C. & G. Western Railway tracks. The International Grain Co., McCarthy Bros. Co., and a large elevator at St. Louis Park are all under the same management. The Electric Steel Elevator Co. is owned by the Russell Miller Milling Co., and thereby hangs a tale.

A farmer from North Dakota wrote in to the Russell-Miller Co. and asked them why it was that they refused to buy a bushel of the grain handled by the Cooperative Exchange, and why it was that all the Minneapolis mills have for months refused to buy a bushel of the grain handled by the Equity Cooperative Exchange, and this letter, which I shall offer in evidence, was received in reply. This in on the stationery of the Russell-Miller Milling Co., and is dated, Minneapolis, Minn., February 7, 1914. I will read it:

L. NOLTIMIER, *Secretary,*
Valley City, N. Dak.

DEAR SIR: We have your valued favor of February 4 and will be very glad to answer your questions in regard to our wheat buying as fully as we can.

As you know, we buy at our Dakota mills a great deal of our wheat supply from Equity farmers and from Equity elevators. We feel sure no flour sold in North Dakota is manufactured so largely from Equity wheat as ours.

As to our wheat supply for our Minneapolis mill will say, that we do not buy a bushel of this wheat ourselves, nor do we have any organization here for buying wheat. Our wheat here is all bought for us by the Electric Steel Elevator Co. on a brokerage basis. We simply tell them the kind of wheat and the amount we want and ask no questions as to who sells it. This arrangement is cheaper for us than to put in our own wheat-buying organization; so that as long as we are buying no wheat whatever through our own organization, we are of course not direct buyers of Equity wheat at this point, though presume much of our wheat ground here is raised by Equity farmers and shipped by Equity elevators.

Very truly, yours,

RUSSELL-MILLER MLG. CO.
H. S. HELM, *General Manager.*

Now, I wish to offer in evidence, and I do offer in evidence, the statement of a financial agency, showing that the Electric Steel Elevator Co. is in fact a subsidiary owned by the Russell-Miller Milling Co. I offer this in connection with that letter.

(The statement referred to is as follows:)

"ELECTRIC STEEL ELEVATOR CO.,
"75 CHAMBER OF COMMERCE,
"*Minneapolis, Minn., October 12, 1912.*

"This is a Minnesota corporation organized in February, 1901, with an authorized capital of $200,000, which was increased by amendment in January, 1905, to $300,000. The corporation owns and operates a large terminal steel elevator plant on Marshall Street NE., and the company was controlled until some weeks ago by the Messrs. L. S. and George M. Gillette and associates. In the early part of August it was reported that arrangements had been made whereby the capital stock of this company would be acquired by the present officers and associates, who are the principals of the Russell-Miller Milling Co. of this city. It was reported that the plant was bought, based on a valuation of $450,000, and that former stockholders received some cash and also preferred stock amounting to $200,000 and common stock $50,000. The bond issue, amounting to $200,000, was floated and now appears against the property.

"Edward P. Wells has long been a resident of this city, is president of the Wells & Dickey Co., investment bankers of this city, and also president of the Russell-Miller Milling Co., a man in excellent standing and of considerable means.

"Mr. Lyon has also been a resident of this city for several years and was formerly located in North Dakota. He was the principal of the Lyon Elevator Co., which was taken over by interests controlled by the above officers, and he is also vice president of the Russell-Miller Milling Co., and one of the important stockholders. He is also president of the Mandon Mercantile Co., a large institution of this city.

"Mr. Helm is prominently identified with the management of the Russell-Miller Milling Co. and has been associated with that concern for years. Also well regarded in all respects and represents some resources."

This is the way in which the producers of the Northwest are hoodwinked and the way in which they are robbed by this system of interlocking directorates, by this

ownership of the commission houses by the very interests which buy the grain; by this interlocking of officials; by this secret manipulation of the members of this institution, some of whom are here to-day and will prate to you about their high standards of honor—an institution whose by-laws set forth as one of its objects that it is incorporated to inculcate the principles of equity in the trade.

Mr. McLAUGHLIN of Michigan. You would propose the admission of these associations to a grain exchange on condition that they comply with all the rules of the grain exchange?

Mr. STEENERSON. No; the bill I offer provides that they shall be admitted if they comply with the other rules, but they must not be excluded because they pay a patronage dividend to their members.

Mr. McLAUGHLIN of Michigan. But otherwise you would have them comply with all the rules of the exchange? Of course it would be impossible to have one member of the exchange operating freely as he might please and all the other members of the exchange bound down by rules.

Mr. STEENERSON. Well, there would be no such condition. This is only a condition of membership. The only objection that has ever been made to cooperative societies is that they construe the patronage dividend that is paid as a division of commissions, and it is not a division of commissions. Under this bill they are forbidden to prescribe a different rule for admission than is prescribed in the bill.

Mr. McLAUGHLIN of Michigan. Do you believe that the rule forbidding the splitting of commissions is a good rule?

Mr. STEENERSON. The rule may be all right, but if you construe it to exclude these societies it is really a misapplication of it, because in the end the profit arising from a commission accrues to the parties that do it. Now, if a bank has a membership in an exchange—and nearly all the leading banks of Minneapolis have a seat—and that bank makes $10,000 by reason of one of their clerks having a seat on the exchange, that profit goes to the benefit of the stockholders. There may be a thousand stockholders. Here is a cooperative society with a thousand farmers, and they furnish a hundred thousand bushels of wheat. Instead of paying a dividend on the capital stock invested in the elevator, or simply the 8 per cent dividend that they pay on the borrowed money, we pay it to those 1,000 farmers. There is no difference in principle.

Mr. McLAUGHLIN of Michigan. Has there ever been any objection on the part of the exchange to admitting a bank to a seat on the exchange?

Mr. STEENERSON. Why, no.

Mr. McLAUGHLIN. Has that rule against the splitting of commissions ever been invoked against a bank?

Mr. STEENERSON. No. They do not even invoke it against the corporations that have a half dozen or 15 or 20 subsidiaries. There was one instance cited in the evidence here of a concern that had 21 memberships. It is testified to that they control—a majority of the stock, at least, is owned by one concern, and all of those concerns may profit by having seats on the exchange, and eventually that profit finds its way to the proprietor.

Mr. McLAUGHLIN of Michigan. Then it would not be enough, if your bill were passed, to have it provide simply that the representative of the cooperative exchange should be admitted and that their method of distributing dividends or making returns to their members

should not be considered contrary to the rules against the splitting of commissions? That would not be sufficient in your bill, would it?

Mr. STEENERSON. Why, I think it is better the way it is in the bill. I will read it:

SEC. 2. That every such market, whether heretofore or hereafter organized, shall be open to membership, with equal rights and privileges with all other members, to any person, firm, company, or corporation desiring to trade in such commodity on such market who shall make application for membership and whose methods of business, operation, or plan of organization shall not conflict with or contravene any reasonable rule, regulation, or by-law of such market. All members shall be required to comply with all reasonable rules, regulations, and by-laws of such organization, which may include the payment of a reasonable membership fee and reasonable assessments equally applicable to all members. The words "company" or "corporation," herein designated shall include cooperative associations organized under the laws of the United States or of any State. Any rule, regulation, or by-law of such market which shall be designated or construed as controlling, limiting, or modifying articles of incorporation, constitution, or by-laws, of any association, company, or corporation in the distribution of its profits to its stockholders and members shall be deemed to be unreasonable and void.

Mr. MCLAUGHLIN of Michigan. Well, who is going to determine the reasonableness of the other rules and regulations of the grain exchange?

Mr. STEENERSON. That might come up in court, in litigation. If they refuse membership for an unreasonable or captious cause they can bring the case into court to be determined.

Now, this grievance that the cooperative societies in the Northwest had against the grain exchanges of Minneapolis and Duluth was brought before the Committee on Rules here, and this testimony was offered, and there was no action taken by the committee. It was right at the end of the session, and nothing came of it.

Mr. MCLAUGHLIN of Michigan. At that time was there a bill similar to this pending?

Mr. STEENERSON. No.

Mr. MCLAUGHLIN of Michigan. How did it come up?

Mr. STEENERSON. It came up on a resolution to appoint an investigating committee to investigate the facts and all things connected with what you are investigating here. Of course, all bills creating commissions are first referred, as a parliamentary matter, to the Committee on Rules.

A year or two thereafter, in 1917, the President issued an order to inquire into food prices. The Federal Trade Commission was ordered to investigate the handling and dealing in foodstuffs, the cost of handling, etc.

Mr. MCLAUGHLIN of Michigan. Was it under that order of the President that the investigation by the Federal Trade Commission of the packers was made?

Mr. STEENERSON. No; I do not think so. I am not sure about that. When the President issued this order the Federal Trade Commission notified Members of Congress who had introduced bills on the subject of the grain markets to appear. I appeared, among others, and referred to the exclusion of the cooperative societies from the grain exchanges as one of the causes which I believed affected the price of food, and outlined the condition in regard to the market, as to whether it was open to the producer, and pointed out that the men who raised the wheat were the only ones who could not sell on the market. They have to hire some member of the board of trade or chamber of com-

merce to sell it for them, and they would very much prefer to have a man of their own representing their society.

As I indicated the other day, markets fluctuate. If you take the market reports from Minneapolis for last Saturday you will find that the same grade of wheat varies from 10 to 15 cents, and often there is a fancy price. Now, if the cooperative society has it own man he can take advantage of these premiums and realize the best price, whereas if they simply ship it on consignment all they know is that they get the price of the grade, but nowadays the grade is but a slight indication of the real value of the wheat. It is all right for a contract price to have the grade, but when you come to a cash market or on a board of trade there are perhaps 100 buyers, and some of them are mixers, some are millers, some are shippers—I have been there myself.

A man comes along and says, "This is No. 2," but you can see that it is really very dry; there is very little moisture in it, and for that reason, although it falls below the Federal grade No. 1, in some other respect, it is a very meritorious wheat, and a miller that wants that particular quality of wheat would pay 5 cents above the grade price.

Now, those things can not be done unless you are a member of the exchange. If a farmer simply consigns his wheat to Tom, Dick, and Harry, somebody that he does not know, he has got to depend entirely upon their using their best efforts.

It is true that the members of the grain exchanges all say that it is only in the bucket shops where the interests of the buyer and seller are directly opposite; that the interest of the manager of the bucket shop is directly opposed to the interest of his patron, and that on the board of trade it is exactly the reverse and that the interest of the man who sells that wheat for another is always identical with that of his client. Well, that is probably an exaggeration. Brokers on the grain exchanges are not all angels by any means. We know from experience. I have shipped wheat ever since I have been in the Red River Valley; lately I have sold it to local elevators, but I have shipped a great many carloads to Minneapolis, and I know that a great many shippers are not given the very best treatment by these brokers; and farmers would very much prefer—I would very much prefer if I could ship it to a representative of the cooperative society that operates in that neighborhood.

There is such an unlimited scope there. The market may fluctuate on the same day 8 or 10 cents, and often does, especially in the last year. There is that much difference in the premium that can be obtained if you can find the right buyer.

Now, that service is rendered by the agent of a cooperative society, and he gets big results; a good deal more than the commissions would amount to. It is not so much the broker's commission as it is the enhanced price that is obtained by having a faithful servant on the board. You are not there and you are unable to find out whether your broker has sold it to a subsidiary company, or his own parent company, and they resell it to another. There have been cases that we know of where it has been sold several times at a premium, but the first sale was at the regular price for that grade.

Mr. McLAUGHLIN of Michigan. Would the representative of the cooperative society know just whom he was selling to in each instance?

Mr. STEENERSON. Yes: that is what he is on the board of trade for. If you are on the board of trade you have these samples, and the moisture is given and the grade is given, and you examine it, and generally you can find out how much dockage there is. It is certified. There is an official State sampling bureau and private samplers also.

Mr. McLAUGHLIN of Michigan. Would he know that the purchaser was not somebody who was going to pass it along to some subsidiary?

Mr. STEENERSON. He could not know that, no; but he could get more for it than the price of the grade, because that is what he is there for; he is there to try to get a premium. He finds a man who is a mixer, who has got an elevator and who has bought four carloads of grain of 16 per cent moisture, No. 2. Everything else is No. 1. Here are two carloads that are only 10 per cent. Lots of wheat this year was only 9 or 10 per cent moisture. By mixing those one or two carloads with those four carloads you reduce the total moisture content to 14½ per cent. That makes it No. 1. For mixing purposes that wheat is worth a premium to that man, and it would be worth a premium to the miller, because the less moisture there is the less water you pay for.

Now, these are things that you can accomplish by being a member of the board of trade or chamber of commerce. You go and spend a day or two there, and you will see that it is very easy for a representative of the cooperative society to earn a great many times more than the mere commission, by reason of the higher price. The other man simply gets a commission and that is all, but this man tries to get the right buyer.

Now, you take a miller. He may have a lot of wheat that would make good patent flour if he only had some hard wheat. He wants that hard wheat to raise the strength of his flour, and he is willing to pay a premium for it: but you have got to find the man that needs that. You can get more than the No. 1 price, because you find a man that needs exactly that wheat, because it is extraordinarily hard wheat.

Mr. McLAUGHLIN of Michigan. You think that would result in the producers of the wheat getting a higher price?

Mr. STEENERSON. Surely; that is the reason they are asking for it.

Mr. McLAUGHLIN of Michigan. What would become of the consumer then?

Mr. STEENERSON. The consumer would not be mulcted in the price at all. This is the extraordinary profit that I am speaking of. Why is it that some of these grain elevator people who have their seats on the exchanges, like Peevy, for instance, in 10 years become worth forty or fifty million dollars? It is because they own all the facilities; they own the elevators, they can mix, and they have an interest in the mill. It is not the mere profit that you see on paper; the profits are in controlling it, and this law would not increase the price to the consumer, but would reduce the concealed and illegitimate profit of the brokers.

Mr. McLAUGHLIN of Michigan. This is a plan by which the producer would get a higher price and the consumer would get it for less?

Mr. STEENERSON. No, not less. It is exactly carrying out Mr. Hoover's proposition that you just listened to, that you reduce the margin between the consumer and the producer. And as a general

thing it stimulates production, and stimulated production eventually reduces the price to the consumer.

The CHAIRMAN. Mr. Steenerson, just one question. A wrong may be committed by selling on grade instead of the actual commercial value, may it not?

Mr. STEENERSON. Yes, on the Board of Trade, if it is a cash sale.

The CHAIRMAN. And therefore he wants his own representative there, because he is in a position to ascertain the difference between the commercial value and the grade value?

Mr. STEENERSON. Yes. The Federal Trade Commission provides:

> Whenever the commission shall have reason to believe that any such person, partnership or corporation has been or is using any unfair method of competition in commerce and it shall appear to the commission that a proceeding by it in respect thereof would be in the interest of the public, it shall issue and serve upon such person, partnership or corporation a complaint, stating its charges in that respect.

Now, the proceeding that was initiated by the President in 1917, resulted in an investigation by the Federal Trade Commission, which they conducted for over two years. After having examined the evidence that was submitted they sent out their examiners to Minneapolis and examined the methods of doing business and everything of that kind, and as a result they recently issued the complaint that Mr. Wells referred to in answer to Mr. Tincher's question addressed to Mr. Loughton. I was not here, but I read it just a moment ago in the transcript. I would like to have that complaint inserted in the record. I have it here.

The CHAIRMAN. A complaint by whom?

Mr. STEENERSON. By the Federal Trade Commission against the Chamber of Commerce of Minneapolis, accusing them of unfair practices and charging them with doing these things that I have related here. That is, they exclude cooperative societies and prosecute them by not allowing them to trade.

The CHAIRMAN. Is this the report or the complaint?

Mr. STEENERSON. This is the complaint.

The CHAIRMAN. By whom?

Mr. STEENERSON. By the Federal Trade Commission. Under this law, you see, they have got to be satisfied. They examine all the evidence first, and they have got to be satisfied. It is an official complaint against them, but of course they will have to have a hearing later on. You are not bound here by strict rules of evidence. And it is on this very point that they complain in this investigation, that they are excluding these cooperative societies and boycotting them so they can not sell their grain to anybody If a miller buys occasionally from the board of trade and they find out that he buys privately from a farmer or a farmer's agent he can not buy any more on the board of trade.

Mr. MCLAUGHLIN of Michigan. Is that in pursuance of a rule, or is it just a practice of the board of trade?

Mr. STEENERSON. It is the result of both.

Mr. MCLAUGHLIN of Michigan. Have they a rule to that effect?

Mr. STEENERSON. They have a rule that no member may deal with nonmembers.

Mr. MCLAUGHLIN of Michigan. That would mean that if a man became a member of the board of trade he could never deal in any other way in that commodity?

Mr. STEENERSON. Well, the rules have been put in evidence here. I do not know whether I can state it correctly.

The CHAIRMAN. And all except members are excluded from the exchanges in buying and selling?

Mr. STEENERSON. Yes.

The CHAIRMAN. I think we have the testimony.

In that behalf I want to offer in evidence some pages of the investigation which was made before the Committee on Rules five years ago, also the complaint of the Federal Trade Commission and excerpts from the testimony given in a former investigation by a committee of the House.

Mr. STEENERSON. With that I have finished. I am satisfied that Congress ought to act and provide a law something like the one I have introduced.

(The matter referred to is here printed in full, as follows:)

UNITED STATES OF AMERICA,
Before Federal Trade Commission, ss:

At a regular session of the Federal Trade Commission, held at its office in the city of Washington, D. C., on the 7th day of December, A. D. 1920.

Present: Huston Thompson, chairman, Nelson B. Gaskill, John Garland Pollard, Victor Murdock, Commissioners.

Federal Trade Commission *v.* the Chamber of Commerce of Minneapolis; the officers, board of directors, and members of the Chamber of Commerce of Minneapolis; Manager Publishing Co., John H. Adams; and John F. Flemming. Docket No. 694. Complaint in the matter of the alleged violation of section 5 of the act of Congress approved September 26, 1914.

I. The Federal Trade Commission, having reason to believe, from a preliminary investigation made by it, that the Chamber of Commerce of Minneapolis; the officers, board of directors, and members of the Chamber of Commerce of Minneapolis; Manager Publishing Co.; John H. Adams, and John F. Flemming, all hereinafter referred to and named as respondents herein, have been, and are, using unfair methods of competition in interstate commerce in violation of the provisions of an act of Congress approved September 26, 1914, entitled, "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," and it appearing that a proceeding by it in respect thereof would be to the interests of the public, issues this complaint, stating its charges in that respect on information and belief, as follows:

PARAGRAPH 1. That the respondent, the Chamber of Commerce of Minneapolis, hereinafter referred to as chamber of commerce, is a nonstock or membership corporation, organized and existing for the profit of its members under and by virtue of the laws of the State of Minnesota, and engaged in the business of conducting a grain exchange, or market, for the exclusive use of its members, wherein approximately 200,000,000 bushels of grain are bought, sold, and exchanged annually by and between such members dealing on their own account and for the account of others; that said chamber of commerce is also engaged in the business of buying, selling, and exchanging valuable business and commercial information consisting chiefly of price quotations of various kinds of grains and other market news which it causes to be transported by means of mail, telephone, telegraph and otherwise, to and from its said exchange located at its principal office and place of business at the city of Minneapolis, in the State of Minnesota; and to, from and among numerous other so-called regular grain exchanges and members thereof located throughout numerous states of the United States, and to and among its said members and to thousands of the general public who are not members of said exchange and who are located throughout the various States of the United States; that the government of the respondent chamber of commerce is vested in a board of 13 directors, including its president and two vice presidents; that as a condition precedent to and in consideration for membership in said chamber of commerce, members are required to agree to be governed by the charter, rules, regulations, usages and customs of said chamber of commerce and by all amendments and additions to said rules and regulations and to bind by such agreement their heirs, executors, administrators and assigns; that said rules provide penalties which may be imposed for violations thereof in the nature of fines, censure, suspension or expulsion; that said rules, resolutions, regulations, customs and usages of respondent chamber of commerce are opposed to and prohibit members thereof from conducting their business, hereinafter described, on the principle of cooperative grain marketing

providing for the payment of patronage dividends in proportion to sales and purchases on the basis of value and quantity of patronage, and prohibit admission to membership of any person or organization conducting its business on said principle of cooperative grain marketing; that the said members of the respondent chamber of commerce are possessed of great financial power and that by the use thereof, and with community stock ownership, interlocking interests, and directorates among themselves, together with the assistance of said chamber of commerce and other so-called regular grain exchanges with interlocking memberships and intimate community rules, purposes and action, now have, and for several years have had, a monopoly in the selling, buying and distributing of grain at Minneapolis, Minn., and within a radius of 100 miles thereof.

PAR. 2. That the members of the respondent, chamber of commerce, are individuals, firms, copartnerships, and corporations, who are located in the State of Minnesota and in numerous other States of the United States; that many of said members act as grain commission merchants and many others operate mills and line and terminal elevators in several States of the United States, while others are engaged in banking and various other lines of business; that among the said members are both those who buy and those who sell grain on commission, those who are actually purchasers and sellers thereof, and also those who are members of firms and corporations engaged in dealing in grain, both on commission and as actual purchasers and sellers thereof and who, as members of said chamber of commerce, are bound in the conduct of their business and the business of said firms and corporations with which they are connected to observance of and compliance with the rules of said chamber of commerce that practically all of said members in carrying on their said business now are, and during all the times herein mentioned have been, on their own account and for the account of others, engaged in storing or otherwise handling, caring for, purchasing, selling, and shipping of various kinds of grain throughout the States and Territories of the United States in competition with others so engaged; that the business methods, practices, and relations of the said members while so engaged in said commerce are dictated, regulated, and controlled by the rules, resolutions, customs, and usages prescribed, maintained, and enforced by the respondent, chamber of commerce, that by reason of the size of its membership and the large number of firms and corporations with which its members are connected and which, by virtue of such connection, transact their business in accordance with the rules of said chamber of commerce said chamber of commerce has become and is a commercial center for the transaction of business in wheat, corn, oats, rye, and other grain wherein none but said members are permitted to transact such business; that a large portion of said business is in grain purchased in the States other than Minnesota for shipment to and delivery at Minneapolis, and in grain shipped from points in States other than Minnesota to Minneapolis for sale at Minneapolis, which said grain is an article of commerce among the States, and that a large part of the business transacted upon said exchange maintained by said chamber of commerce is in connection with the purchase, sale, and handling of such interstate shipments of grain; that many members of respondent, chamber of commerce, and many firms and corporations with which said members are connected, purchase and deal in grain throughout the territory tributary to Minneapolis which includes the States of Wisconsin, Minnesota, North Dakota, South Dakota Montana, and Wyoming, for shipment to and delivery at Minneapolis; that such members, firms, and corporations purchase grain which has been shipped to Minneapolis from points within said territory upon its arrival at Minneapolis, sell and ship such grain to points in States other than the State of Minnesota, and purchase and deal in grain which is in transit to Minneapolis upon the lines of the various carriers entering said city.

PAR. 3. That the respondents, C. A. Magnuson, C. M. Case, William Dalrymple, and John J. McHugh, reside at Minneapolis, Minn., and are respectively president, first vice president, second vice president, and secretary of said chamber of commerce; that, with the exception of John J. McHugh, the said respondents, together with the respondents, A. C. Andrews, B. F. Benson, W. F. Fraser, H. P. Gallaher, J. B. Millillan, jr., H. S. Helm, Asher Howard, John McLeod, J. H. MacMillan, and F. Van Dusen, who also reside at Minneapolis, Minn., are directors and members of said chamber of commerce.

PAR. 4. That there are approximately 550 of respondent members of said chamber of commerce, nearly all of whom are engaged in business, as hereinbefore described; that many of such members reside at the city of Minneapolis, in the State of Minnesota while some reside at other cities in said State and others reside in cities located in various other States of the United States; that all of such members are subject in the conduct of their said business to the rules, regulations, customs, and usages of said chamber of commerce when buying, shipping, or otherwise dealing in various kinds of grain and seeds shipped to, or intended for shipment to, Minneapolis, Minn., or

when dealing in various kinds of grain and seeds at Minneapolis, Minn., and that said respondent members constitute a class so numerous as to make it impracticable to name them all as parties respondent herein, but those designated herein are fairly representative of the whole.

PAR. 5. That the respondent, Manager Publishing Co., is a corporation organized and existing under and by virtue of the laws of the State of Maine, having its principal office and place of business at the city of Minneapolis, in the State of Minnesota, and is the owner and publisher of a periodical or grain trade paper known as "The Co-Operative Manager and Farmer," published at the said city of Minneapolis, State of Minnesota, and circulated among farmers, grain growers, and persons engaged in the grain trade throughout the Northwestern States and elsewhere among the States of the United States; that the respondent, John H. Adams, who resides at the city of Minneapolis, in the State of Minnesota, was a stockholder and an officer of the said Manager Publishing Co. and the editor of the said "The Co-Operative Manager and Farmer" during the time hereinafter alleged; and the respondent, John F. Flemming, who also resides in the city of Minneapolis, in the State of Minnesota, was, during the time hereinafter alleged, and still is, a stockholder and managing officer of the said Manager Publishing Co. and the editor of the said "The Co-Operative Manager and Farmer."

PAR. 6. That the Equity Cooperative Exchange, hereinafter referred to as the co-operative association, is a cooperative association or corporation, organized and existing under and by virtue of the laws of the State of North Dakota, with its principal office at the city of St. Paul, in the State of Minnesota, and other offices at Fargo, N. Dak.; Superior, Wis.; and Great Falls, Mont.; that the said cooperative association has approximately 7,000 stockholders, none of whom are members of the said chamber of commerce, and practically all of whom reside in the States of North Dakota, South Dakota, Montana, and other Northwestern States, and are engaged in the business of raising various kinds of grain and in selling and shipping it from points in said Northwestern States to the said cooperative association; that much of said grain is shipped to said cooperative association at St. Paul, Minn., at which place and under which circumstances the said cooperative association acts as the selling agent for its said stockholders; that much of said grain so sold is immediately shipped to points in States other than Minnesota; that while so engaged said stockholders are in direct competition with many of the respondent members of said chamber of commerce; that the said cooperative association is also engaged in competition with many of the respondent members of said chamber of commerce in the business of operating terminal elevators and elevators located at country points in States other than Minnesota, and in shipping and selling for others and on its own account, various kinds of grain bought by it and consigned to it from various States of the United States by others than its said stockholders, and in disseminating market news; that said cooperative association is also engaged in generally promoting the interests and principles of cooperation; that the rules and by-laws in conformity with which said cooperative association conducts its business provide for the payment of patronage dividends, or dividends based on apportionment among its patrons in proportion to patronage given, of any earnings or profits in excess of the amount required to conduct its said business; that the rules of said respondent, chamber of commerce, and the rules of other so-called organized or regular grain exchanges prohibit membership to any association or other organization which returns, or proposes to return, any part of its earnings or prospective earnings to patrons on the basis of such patronage dividends; that being thus barred from representation on the market controlled by said chamber of commerce and from representation on markets controlled by other so-called organized or regular exchanges, said cooperative association opened a market at the city of Minneapolis, in the State of Minnesota, about the year 1912; that in the month of August, 1914, said cooperative association moved to St. Paul, Minn., where in conjunction with others it established the St. Paul Grain Exchange and became a member thereof; that during all of the time herein mentioned respondents have by means and methods hereinafter described, harassed, embarrassed, and attempted to destroy the said cooperative association, and the hereinafter mentioned St. Paul Grain Exchange.

PAR. 7. That the St. Paul Grain Exchange, hereinafter referred to as competing exchange, is a nonstock or membership corporation, organized and existing under and by virtue of the laws of the State of Minnesota, and is engaged in conducting a grain exchange, or market, for the use of its members and all persons who desire to make use thereof, at its principal office and place of business in the city of St. Paul, State of Minnesota; that the rules and regulations of the said competing exchange are not opposed to, neither do they prohibit, the members thereof, when engaged in their business as hereinafter described, from conducting the same on the principle of cooperative grain marketing or the payment of patronage dividends; that the members of said competing exchange are individuals, firms, copartnerships, and corpora-

tions, a number of which are engaged in the business of grain commission merchants operating mills, line and terminal elevators, and various other lines of business that many of said members, in carrying on their said business, now are, and during all the times hereinafter mentioned have been, engaged in purchasing, selling shipping, storing, or otherwise handling, caring for, dealing in, and merchandising various kinds of grain on their own account and for the account of others; that said members when engaged in their said business, are in competition with the members of said respondent, chamber of commerce.

PAR. 8. That a great portion of the grain sold, purchased, shipped, stored, or otherwise handled, cared for, dealt in, and merchandised as aforesaid by the members of said respondent, chamber of commerce, by the members of said competing exchange, and by said other competitors not members of said chamber of commerce or of said competing exchange, consists of grain which has been shipped from various places in the State of Minnesota and from various places in States other than the State of Minnesota with the expectation on the part of the owners, shippers, sellers, and purchasers thereof, that such grain will end its transit, after it has been so sold and purchased, in States other than the State from which such grain was shipped; that such grain does in effect end its transit, with only the interruption necessary to find a purchaser and to consummate such sale and purchase, in States other than the States from which such grain is shipped; that this is the typical constantly recurring course of the grain sold, purchased, shipped, stored, or otherwise handled, cared for, dealt in, and merchandised as aforesaid, and that the current thus existing is a current of commerce among the States of the United States and the selling, purchasing, shipping, storing, or otherwise handling, caring for, dealing in, and merchandising of such grain as aforesaid is a part and incident of such commerce.

PAR. 9. That the said respondents are, and for more than three years last past have been, engaged in a confederation and conspiracy among themselves, entered into, carried out, and conducted with the purpose and effect of annoying, embarrassing, and destroying the business of said competing exchange, whose rules, customs, and purposes are not opposed to the cooperative plan of marketing, and to the payment of patronage dividends to producers of grain; and with the purpose and effect of annoying, embarrassing, and destroying the business of said cooperative association, and other members of said competing exchange and other competitors who are not members of said chamber of commerce, or of said competing exchange, thereby securing and perpetuating to the said members of said respondent, chamber of commerce, a monopoly of the grain trade at Minneapolis, Minn., and within a radius of 100 miles thereof.

PAR. 10. That in pursuance of such conspiracy and as part thereof, respondents instituted and for more than three years last past have maintained a campaign of defamation against said competing exchange, said cooperative association and other members thereof by printing, publishing, circulating, and distributing, or causing to be printed, published, circulated, and distributed, to and among patrons and customers and prospective patrons and customers of members of said competing exchange and to and among the public generally, false, misleading, and unfair statements concerning such competing exchange, its officers and members and the officers and stockholders of said cooperative association, and their financial responsibility and methods of transacting their said business; that such statements were so published from time to time in various newspapers, periodicals, and pamphlets and circulated and distributed through the various States and Territories of the United States, particularly in the regular and special issues of said the Cooperative Manager and Farmer and in the form of reprints therefrom and in issues of the Northwestern Grain Grower, the same being a grain trade paper published at the city of Fargo in the State of North Dakota.

PAR. 11. That as part of said campaign of defamation many of the respondents, members of said chamber of commerce, by and through the instrumentality and agency of their traveling solicitors, agents, and employees, have made to patrons and customers, and to prospective patrons and customers, of the members of the said competing exchange false, misleading, and unfair statements concerning the said competing exchange, its officers, and members, and the officers and stockholders of said members, and their financial responsibility and methods of transacting their said business.

PAR. 12. That respondents in further pursuance of said conspiracy and as a part thereof and for the purpose and with the effect of annoying, harassing and embarrassing the said cooperative association, and other members of said competing exchange, in the conduct of their said business, submitting them to great expense, injuring their credit and standing generally, and rendering them less able to compete with the said respondents, members of the said chamber of commerce, instigated and caused to be prepared for trial, and to be instituted and carried on almost entirely at their expense

during the years 1914 and 1915, that certain action in the United States District Court, Fourth Division, District of Minnesota, wherein J. Emerson Greenfield and Samuel Crumpton, copartners doing business as Greenfield & Crumpton, were plaintiffs; also that certain proceeding in the District Court, Third Judicial District, North Dakota, wherein Fred Schmidt, J. Emerson Greenfield, and Samuel Crumpton were plaintiffs; and that certain other proceeding in the said District Court, Third Judicial District, North Dakota, wherein the State of North Dakota ex rel Henry J. Linde, its attorney general, was plaintiff.

PAR. 13. That one of the objects and purposes of the incorporation of respondent chamber of commerce is "to acquire and disseminate valuable commercial information"; that in partially carrying out such purpose it supplies telegraphic market quotations to its members and to many thousands of brokers, hotels, restaurants, and persons who are not its members; that pursuant to the said conspiracy and as part of a general plan to embarrass said competing exchange, its members and patrons, and to prevent its growth as a grain market, respondents chamber of commerce, its officers, directors, and members have continuously and persistently refused and still refuse to allow said competing exchange and its members to have such telegraphic quotations from the grain market which respondent, chamber of commerce and its members control and have influenced and induced other chambers of commerce and boards of trade and their members, to aid said respondents in preventing said competing exchange and its members from securing such quotations from any terminal grain market.

PAR. 11. That in pursuance of said conspiracy and as part of such general plan to embarrass said competing exchange and its members in the course of its and their said business and for the purpose and with the effect of destroying said competing exchange as a grain market and destroying the business of its members as competitive grain dealers, respondents, chamber of commerce, its said officers, directors and members, have boycotted and continuously and persistently refused to buy grain from the said cooperative association, member of said competing exchange; that said boycott is sought to be maintained among other ways, by the adoption, enforcement and interpretation of certain resolutions, or special rules, directed against, and prohibiting certain classes of members from dealing with the said cooperative association, member of said competing exchange; that said resolutions or special rules read in part as follows:

"CIRCULAR NO. 405.

"OCTOBER 8, 1912.

"Whereas from time to time certain individuals, firms, and corporations, not members of the chamber of commerce, engage in business in the cities of Minneapolis, St. Paul, or elsewhere, and solicit shipments of grain from farmers and others; and

"Whereas the above-mentioned individuals, firms, and corporations in many cases employ members of the chamber of commerce to sell the grain so received for them, for which the regular commission is charged; and

"Whereas in many cases the shipments are secured from the country shipper entirely as result of false statements made by the individuals, firms and corporations above mentioned, to the effect that by shipping to said individuals, firms or corporations (not members of the chamber of commerce), the shipper would avoid the payment of any commission whatever, and would have his grain sold for as high a price as could be secured in the exchange room of the chamber of commerce; or that a less commission would be charged for selling the grain than that provided by the rules of the chamber of commerce; and

"Whereas in fact, the shipper in many cases pays two commissions, which fact is entirely concealed from him by various methods; and

"Whereas the action of the members of the chamber of commerce in selling the grain for the above-mentioned individuals, firms of corporations on the floor of the exchange room assists them in carrying on such fraudulent business; and

"Whereas the chamber of commerce has no control over such fraudulent conduct or such representations, except to regulate its own members in the furtherance of such schemes; and

"Whereas this association is willing for its members and all others to do legitimate trading in the grain business, and does not wish to curtail the trade of individuals outside of its association where not done in fraud or on misrepresentations to the shippers; and

"Whereas it is the opinion of the board of directors of this association that the members of this association should be regulated so as not to allow them to handle grain of any kind which is procured under circumstances such as are above mentioned, or any other circumstances which mislead the shipper into believing that he is getting the advantages of this association when in fact he is not getting such advantages; and

"Whereas it is quite necessary that this association keep complete control of its members to require them, and all who represent them to transact business with the shippers in perfect good faith: Now, therefore be it

"*Resolved*, That members of the chamber of commerce are hereby forbidden to act in any manner as the agent or representative of any individuals, firms or corporations, in the cities of Minneapolis, St. Paul, or elsewhere, not members of the chamber of commerce, who are soliciting shipments of grain from the farmers or country shippers in the manner above mentioned, or through any scheme, artifice, or device, by which this association is falsely represented, either in its dealing or in the right which the shippers get with respect thereto, or at all, unless the person so soliciting such shipment can show a written statement of the shipper to the effect that he realizes that the person receiving such shipment is not a member of the chamber and can not get advantages out of the chamber which he could not himself get."

"CIRCULAR NO. 634.

"THE CHAMBER OF COMMERCE,
"SECRETARY'S OFFICE,
"*January 11, 1916.*

"*To members:*

"Your very careful attention is called to the following resolution which was unanimously adopted by the board of directors at a meeting held this date, and made effective immediately.

"Yours, respectfully,

"JOHN G. MCHUGH, *Secretary.*

"Whereas there are persons in the grain trade, not members of this association, still using the practices prohibited to members of this association by the resolution of October 8, 1912 (Circular No. 405); and

"Whereas some of such persons use various schemes and pretences to fraudulently conceal the fact that the farmers and other shippers pay more than reasonable amounts to market their grain through them; and

"Whereas some of such parties have induced some members of this association to make purchases of that grain outside of the exchange at prices so low that the member of the chamber of commerce can sell it in the exchange room of the chamber of commerce at unreasonable gains to himself, thus causing the shipper to pay, in form but one commission, but in effect, the equivalent of from two to ten commissions; and

"Whereas the farmers and country shippers are, in the average cases, unable to either know or ascertain the real truth with respect thereto; and

"Whereas it is the policy of this association to prevent its members from dealing in bucket-shops or others carrying on schemes whereby the public is defrauded in grain matters: Now therefore be it

"*Resolved*, That no member of this association, either as owner or commission merchant or at all, shall hereafter sell any grain in the exchange room of the Chamber of Commerce of Minneapolis, which such member knows, or has reason to believe, was originally consigned to any one either as commission merchant, or otherwise, from either farmers or country shippers as the result of any of the fraudulent or wrongful practices or methods described in said resolution of October 8, 1912, or herein: Be it further

"*Resolved*, That it is the opinion of the board of directors of this association that the making of either profits or commissions which directly or indirectly result from deception practiced upon shippers in the marketing of their grain can not be too strongly condemned at all times, by all people, and in all places."

PAR. 15. That said respondents, chamber of commerce, its said officers, directors and members, have for more than three years last past promulgated and effectively enforced by means of severe penalties, and otherwise, rules, resolutions, regulations, customs, and usages other than the rules referred to in paragraph 14 hereof, which aid said respondents in maintaining said monopoly and in carrying out said conspiracy and in furthering their general plan of destroying said competing exchange as a grain market and in destroying the business of the members of the said competing exchange, that among others thereof is Rule VIII of the general rules of the respondent chamber of commerce, otherwise known as the "Uniform commission rule"; that said rule suppresses and destroys competition between said respondents, members of said chamber of commerce, in the conduct of their aforesaid business, discriminates against non-members in favor of members, depresses prices paid for grain bought by said respondents' members, from producers and other shippers, compels said respondent members when purchasing grain "on track" at country points for shipment to Minneapolis to

impose an arbitrary charge on grain in the guise of a commission when no commission or other service is rendered the seller thereof, for the purpose and with the effect of eliminating competition between such purchasers and respondent members acting as commission merchants, discriminates against producers and country shippers by requiring the regularly prescribed commission rates to be charged on grain shipped to Minneapolis from country points and from certain terminal markets while exempting from the payment of such commission rates grain so shipped from other favored terminal markets, establishes unreasonably high rates not justified by the service rendered, with the purpose and effect of arbitrarily keeping more members in the commission business than competition would justify if competition were allowed to exist, and by arbitrary interpretation of such rule prohibits and prevents said members from transacting their said business on the principle of cooperative marketing or the payment of patronage dividends hereinbefore described and renders ineligible to membership in respondent chamber of commerce all individuals, firms, copartnerships, and corporations conducting their business on such cooperative or patronage dividend principle; that said rule is in part as follows:

"SEC. 10. In addition to the above there shall be charged such legitimate expenses as are necessarily incurred in caring for the property and guarding the interests of both consignor and consignee, including interest on advances at the legal rate then in force in Minnesota. Nothing in this rule shall be so construed as to prevent any special agreement between consignor and consignee by which a higher rate of commission may be charged in special cases.

"Every member of this association, and every person, firm, and corporation admitted to trade or to do business therein, hereafter buying directly or indirectly for his, their, or its own account or otherwise any grain or seeds dealt in upon this exchange, in carload lots on tract at country points, for shipment to Minneapolis, or buying any of the same to be delivered at Minneapolis, shall make their bids, offers, and purchases therefor on the basis of the Minneapolis market values less commission or a profit at least equal to the established rates of commission on said grain or seeds; and in addition such bids, offers, or purchases shall be made subject to the usual and the same charges of this association to include, and they shall include, switching, inspection, weighing, freight—if a "delivered" bid and freight on dockage if a "track" bid—interest on advances and all other charges according to the rules of this association, the same as if said grain or seeds were handled on commission through said association; and they shall render an account to the seller for all such purchases, including said charges separately stated in detail; and any person, firm, or corporation who shall violate any of the provisions of this section shall be liable and subject to the same penalties as are provided in Section II of Rule VIII and section 7 of Rule IV of the general rules of this association.

"SEC. 11. Every member of the association, and every person, firm, and corporation admitted to trade, or to do business therein who shall charge less than the regular rates of commission established by the rules of the association; or shall assume, or rebate, any portion of the same; or shall, with intent to evade in any way directly or indirectly, the regular rates of commission established by the rules of the association, purchase, or offer to purchase, any grain or seed consigned to him, them, or it, for sale; or shall, with intent to cut, or to evade in any way directly or indirectly the regular rates of commission established by the rules of the association, purchase, or offer to purchase any grain, or seed on track, at any railway station outside of, and for delivery at the city of Minneapolis; or shall make or report any false or fictitious sales or purchases; or shall resort by any method of accounting directly or indirectly in violation of, or contrary in purpose and effect to a strict adherence to the regular established rates of commission of the association; or shall, with intent to evade the regular rates of commission established by the rules of the association, directly or indirectly pay, or give, or offer so to do, any money, or other consideration of whatsoever nature to any person, to procure or influence shipments or consignments of grain or seed in any form; or shall, with intent to cut or to evade in any way directly or indirectly the regular rates of commission established by the rules of the association, make use of any shift or device whatsoever, shall be deemed guilty of violating the rules of the association establishing rates of commission, and, on conviction thereof, shall be fined by the association not less than $250 nor more than $1,000 as the board of directors may determine, such sum to be paid into the general fund of the association.

"Any charge of violation of the foregoing provision, or any part thereof shall be by complaint in writing, filed with the secretary of the association. The party charged shall be summoned by written notice from the secretary, and shall appear before the board of directors of the association, who shall investigate and try the charge.

"The enforcement of the provisions of this section of this rule shall not in any manner prevent the enforcement of additional penalty for the violation of any rule as provided for in section 7, of Rule IV, of these rules and by-laws.

"The board of directors shall offer a reward not exceeding $1,000 to any person who shall furnish evidence that does convict any member of the chamber of commerce, or any firm, corporation, or party admitted to trade or to do business in the chamber of commerce of a violation of the established rates of commission; that object of this rule being to prevent the demoralization resulting from the giving, either directly or indirectly, of compensation to station agents, elevator agents, bankers, brokers, merchants, or any other parties at any locality whatsoever, to influence shipments of consignments of grain. But this rule shall not prevent the regular employment by members of this association of traveling men, but shall prohibit a division of commissions with such traveling men who are not resident members of this association."

PAR. 16. That respondents, chamber of commerce, its officers, directors and members are materially aided in carrying out said conspiracy and general plan to destroy said competing exchange as a grain market and said members of said competing exchange as competing grain dealers by means of contracts and arrangements binding country shippers to ship all or the greater part of their grain to the said chamber of commerce members financing such shippers; that such contracts and arrangements are made possible and effective by reason of said respondents' control of great financial power and by interlocking interests within and without said chamber of commerce and used for the purpose and with the effect of unduly controlling country shippers in the manner and method of both purchasing and disposing of grain.

PAR. 17. That by reason of the foregoing facts, respondents have been, and are, using unfair methods of competition in commerce within the intent and meaning of section 5 of an of Congress entitled "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September 26, 1914.

II. The Federal Trade Commission, having reason to believe from a preliminary investigation made by it, that the Chamber of Commerce of Minneapolis; the officers, board of directors, and members of the Chamber of Commerce of Minneapolis; all hereinafter referred to and named as respondents herein, have been, and are, using unfair methods of competition in interstate commerce in violation of the provisions of an act of Congress, approved September 26, 1914, entitled "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," and it appearing that a proceeding by it in respect thereof would be to the interests of the public, issues this complaint, stating its charges in that respect on information and belief as follows:

PAR. 1. That the several recitals in paragraphs one, two, three, four, six, seven and eight of Count I, hereof, are herein charged as fully and completely as though the several paragraphs were repeated verbatim.

PAR. 2. That respondents instituted and for more than three years last past have maintained a campaign of defamation against competitors by printing, publishing, circulating, and distributing, or causing to be printed, published, circulated, and distributed, to and among patrons and customers, and prospective patrons and customers, of said competitors and to, and among, the public generally, false, misleading and unfair statements concerning such competitors and their financial responsibility and methods of transacting their said business; that such statements were so published from time to time in various newspapers, periodicals, and pamphlets and circulated and distributed through the various States and Territories of the United States, particularly in the regular and special issues of said Cooperative Manager and Farmer, and in the form of reprints therefrom and in issues of the Northwestern Grain Grower, the same being a grain trade paper published at the city of Fargo, in the State of North Dakota.

PAR. 3. That said respondents by and through the instrumentality and agency of their traveling solicitors, agents, and employees are now making and for more than three years last past have made to patrons and customers, and to prospective patrons and customers, of competitors, false, misleading, and unfair statements concerning said competitors, and their financial responsibility and methods of transacting their said business.

PAR. 4. That respondents, for the purpose and with the effect of annoying, harassing, and embarrassing competitors in the conduct of their said business, submitting them to great expense, injuring their credit and standing generally, and rendering them unable to compete with the said respondents, members of the said chamber of commerce, instigated and caused to be prepared for trial, and to be instituted and carried on almost entirely at their expense certain legal actions or proceedings recited and described in paragraph twelve of Count I of this complaint and the said commission relies on said recital and description to the same extent as though the allegations thereof were set out at length herein, and said recitals are incorporated herein by reference and adoption as part of the allegations of this count.

PAR. 5. That one of the objects and purposes of the incorporation of respondent chamber of commerce is "to acquire and disseminate valuable commercial inform-

tion;" that in partially carrying out such purpose it supplies telegraphic market quotations to its members and to many thousands of brokers, hotels, restaurants, and persons who are not its members; that for the purpose and with the effect of annoying and embarrassing said competing exchange, its members and patrons, and to prevent its growth as a grain market, respondent chamber of commerce, its officers, directors, and members have continuously and persistently refused, and still refuse, to allow said competing exchange and its members to have such telegraphic quotations from the grain market which respondent chamber of commerce and its members control, and have influenced and induced other chambers of commerce and boards of trade and their members to aid said respondents in preventing said competing exchange and its members from securing such quotations from any terminal grain market.

PAR. 6. That said respondents, for the purpose and with the effect of annoying and embarrassing said comteping exchange and its members in the course of its and their said business and for the purpose and with the effect of destroying said competing exchange as a grain market and destroying the business of its members as competitive grain dealers, respondents have adopted and are now enforcing certain resolutions, or special rules, directed against and prohibiting certain classes of members from dealing with the said Cooperative Association, member of said competing exchange; that said resolutions or special rules are set out in part in paragraph 14 of count of Division I of this complaint, and said commission relies thereon to the same extent as though said parts of such resolutions or special rules were set out at length herein, and said parts of such resolutions or special rules are incorporated herein by reference and adopted as part of the allegations of this count or division.

PAR. 7. That said respondents have for more than three years last past promulgated and effectively enforced by means of severe penalties, and otherwise, rules, resolutions, regulations, customs, and usages, other than the rules referred to in paragraph 6 hereof, which suppress and destroy competition; that among others thereof is Rule VIII of the general rules of respondent chamber of commerce, otherwise known as the "Uniform commission rule"; that said rule suppresses and destroys competition between said respondents, members of said chamber of commerce, in the conduct of their aforesaid business, discriminates against nonmembers in favor of members, depresses prices paid for grain bought by said respondents' members from producers and other shippers, compels said respondents' members when purchasing grain "on track" at country points for shipment to Minneapolis to impose an arbitrary charge on grain in the guise of a commission, when no commission or other service is rendered the seller thereof, for the purpose and with the effect of eliminating competition between such purchasers and respondent members acting as commission merchants, discriminates against producers and country shippers by requiring the regularly prescribed commission rates to be charged on grain shipped to Minneapolis from country points and from certain terminal markets while exempting from the payment of such commission rates grain so shipped from other favored terminal markets, establishes unreasonably high rates not justified by the service rendered, with the purpose and effect of arbitrarily keeping more members in the commission business than competition would justify if competition were allowed to exist, and by arbitrary interpretation of such rule prohibits and prevents said members from transacting their business on the principle of cooperative marketing or the payment of patronage dividends hereinbefore described and renders ineligible to membership in respondent chamber of commerce all individuals, firms, copartnerships, and corporations conducting their business on such cooperative or patronage divident principle; that said rule is set out in part in paragraph 15 of Count or Division I of this complaint and said commission relies thereon to the same extent as though said part of such rule was set out at length herein, and said part of such rule is incorporated herein by reference and adoption as part of the allegations of this count or division.

PAR. 8. That said respondent, members of said chamber of commerce, in the course of their said business are now and for more than three years last past have been, by means of contracts and arrangements, binding country shippers to ship all or the greater part of their grain to the said chamber of commerce members financing such shippers; that said contracts and arrangements are made possible and effective by reason of said respondents' control of great financial power and by interlocking interests within and without said chamber of commerce and used for the purpose and with the effect of unduly controlling country shippers in the manner and method of both purchasing and disposing of grain.

PAR. 9. That by reason of the foregoing facts, respondents have been, and are, using unfair methods of competition in commerce within the intent and meaning of section 5 of an act of Congress entitled "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September 26, 1914.

Therefore, notice is hereby given you, the said respondents and each of you, that the charges of this complaint will be heard by the Federal Trade Commission at its office in the city of Washington, D. C., on the 7th day of February, A. D., 1921, at 10.30 o'clock in the forenoon of said day, or as soon thereafter as the same may be reached, at which time and place you shall have the right to appear and show cause why an order should not be entered by the Federal Trade Commission requiring you to cease and desist from the violations of law charged in this complaint.

And you, and each of you, will further take notice that within 30 days after the service of this complaint, you are required to file with the commission an answer in conformity with Rule III of the rules of practice before the commission.

In witness whereof, the Federal Trade Commission has caused this complaint to be issued, signed by its secretary, and its official seal to be affixed hereto, at the city of Washington, D. C., on the 7th day of December, A. D., 1920.

By the commission.

[SEAL.] J. P. YODER, *Secretary*.

(Thereupon, at 12.50 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., to-morrow, Friday, January 21, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Monday, January 17, 1921.

The committee met, pursuant on Saturday at 10.30 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. Mr. Barnes, the committee is very glad to have you appear before it this morning. As a result of your wide experience undoubtedly you are in a position to give us some valuable information, we will be glad to have your advice and suggestions on this matter.

STATEMENT OF MR. JULIUS H. BARNES, NEW YORK, N. Y., FORMER PRESIDENT UNITED STATES GRAIN CORPORATION.

Mr. BARNES. Mr. Chairman, I quite appreciate that you have been over a great deal of ground, and some of what I may say may be a repetition. In that event, I ask your forbearance with me, because I am trying to develop a suggestion which I hope will be helpful to you and which has grown out of a study which has been forced on me as well as on you. If you will allow me to develop this story in my own way, I shall be very glad to discuss it with you after I have finished.

In view of the general recognition, in Congress and out, of the national service rendered by grain exchanges through their hedging facilities, a discussion of the economic benefits of exchange trading may be narrowed to a consideration of the defects or abuses in the national marketing structure, and of the feasibility of remedying those defects or eliminating those abuses, without destroying the basic function of such exchange trading. The criticism directed at these exchanges, and the explanatory defenses aroused thereby in recent years have apparently led to a very general understanding and acceptance of their great national service in the form of narrow trade margin between producer and consumer, due solely to the liquid hedging facilities of those exchanges.

Competition, active and keen, in the various trade processes between farm and the ultimate table is the great protection of both producer and consumer. That this competition is intense and lowers the trade tolls along the lines of conversion is clearly apparent in any comparison of marketing and trade tolls on commodities which do have the security of exchange hedging, as against commodities not so handled. This competition, in its ease of creation and in its ability to readily expand by credit facilities, rests largely on the fact that large capital investment is not necessary and that banking facilities are readily obtainable by any man or firm of proven character. This ready credit

is the result of years of experience by banks that the hedging system provides a minimum of risk. Lenders prefer the security of such loans as against trades in which the merchant must assume a large price-fluctuation hazard, besides the ordinary hazard of all business.

I assume there is general agreement as to this particular service by the hedging security of exchange trading, but I put particular emphasis on this, that it is not alone the security against a wide change of basic price, but also the ability to close contracts for domestic or foreign sale, quickly and with a minimum of fluctuation during the process of purchase or sale, that maintains the narrow margins in all these trade processes.

If there is a general acceptance then of the usefulness of exchange trading in those respects, then the point at issue and under consideration narrow to the question as to whether trading on exchanges can be, or should be, limited only to actual hedging against actual property bought and sold.

It is impossible to reach a fair conclusion on this without consideration of the service secured by ready removal or placing of hedges with a minimum of fluctuation during the process. Manifestly, it is not possible for the exact quantity, of the exact grade, and in the exact location offered for sale by actual owners at any given moment. to exactly meet the buyer, for actual consumption at home or abroad, with his exact requirements of particular grades and quantities and locations. These particular buyers and particular sellers may not match in their trading desires during the same day, nor during the same week. If then there is to be the instant ability to place or remove hedges without material fluctuation, there must, in the interest of sheer liquidity, be attracted a class of trading that will on very minor fluctuations carry the hedging needs between the operations of the actual hedgers.

In this service, they assume the character of insurers of narrow trade margins for the large hourly needs of millers, dealers, and exporters. Their gains, such as they are, may well be looked upon as the moderate toll of an insurance premium for providing the ordinary commodity trade with security against losses by large price fluctuations before their purchases and sales could be matched. Their trading inducements are of various kinds. A large part of them take no position as long or short, nor of aiming to profit by a rise or fall in the general price level. There are spreaders between markets, selling in one on a minor rise, against a purchase in another market, and waiting for their profit until the counter influence of surplus orders that can not be readily matched again without the attraction of a counter fluctuation, closing back their spreads. There are spreaders between commodities, as, for example, buying corn when in their judgment the grain is unduly depressed in its relative value with packinghouse products of the hog that consumes the corn. The readiness with which this insurance service may be secured with the attraction of a minor relative fluctuation, is a part of the hedging service of these exchanges. It is most probable that the divergence of their individual opinions fairly check each other, and the influence of their trading to either advance or lower the price basis, even for a short period, is probably insignificant.

There is another phase in which the readiness of trading on exchanges performs an incalculable service to the farmer. It mus

sustain the weight of heavy farm marketing during the early crop moving period. The pressure of the early farm movement, if it is not to be unduly depressive, must attract buyers beyond current consumption needs.

These buyers can not be so attracted unless they feel that the purchase price level is such as to carry a fair assurance to them of the actual out-of-pocket expense for storage, insurance, and interest, plus a possible profit, which justifies the risk attendant on such an investment. A country which matures in three harvest months the 12-months' supply of flour for 100,000,000 people, plus almost the same amount more for overseas 12-months' distribution, needs all the absorbing power which buyers of every kind can provide. The entry of those buyers on such an investment must be facilitated. It is at once apparent that the circle of investment and speculative buyers would be at once narrowed should it develop that such buyers could only effect their purchases by the complicated machinery of purchasing and financing actual wheat in country or terminal elevators, with the necessary complicated details in respect to every individual buyer.

Moreover, realization of profits or liquidation of losses in the final outcome of such investments should be consummated also by some other method than the slow, cumbersome one of finding actual buyers for particular grades, quantities, and locations of wheat. These would be deterrents that would distinctly operate to reduce the number of those who now help to carry the crop-marketing pressure. Exchange trading has developed a market place where actual grain handlers who arrange storage and the many details of financing actual movement can meet with these investment and speculative buyers who by their purchases help to maintain the general price level against undue depression during the crop pressure. We must be very sure that the defects or abuses incident to this marketing system produce injustices outweighing all the advantages obtained by liquidity and simplicity, before these simplified trade processes are made more cumbersome.

Seventy-five per cent of the farmers' yearly marketing of wheat leaves the farm in the first half year and only 25 per cent in the last half year. The surplus marketing from the farms in this first half year must be carried by someone into the distribution of the last half. And it is important that investment and speculative absorption of that surplus should not be frightened away by hasty regulation.

It is recognized also by every student of marketing that it is possible to use these same trading facilities for short selling, that by its own volume and weight becomes manipulative in character. The check on such influence lies in the fact that such sales must be bought back to a corresponding amount. Even such weighty selling, not met by equally weighty buying, can produce permanent declines only by the foresight that recognizes in advance the coming development of natural influences. Otherwise the very attraction of a clearly forced price would attract an absorptive buying that would nullify such efforts at depression.

But it is also true that even enough such a price depression must be temporary in character it may, during its period of effectiveness, do substantial injustice by forcing the liquidation of grain held on margins, or by the price tendency thus displayed, frightening owners

otherwise confident of the ultimate value of their goods. The ethics of business morality frown upon such purely manipulative attempts. Traders possessed of resources extensive enough to make such manipulative selling effective, increasingly recognize the social injustice of deliberately creating a price level by sheer pressure of offerings. I am convinced that the greater part of the grain trade condemn such attempts, infrequent as they are. I am convinced they are steadfastly trying to devise methods of reducing or eliminating this character of trading without destroying the market fabric itself.

Exchange authorities have, step by step, in the past developed both the business conscience that condemns corners in grain and developed the methods to make them ineffective until they are almost now a matter of history.

It may not be too much to hope that a more enlightened business conscience, plus methods and practices developed by actual experience, may succeed in time in the reduction also of this admitted evil. Until that day care should be taken that the great daily and hourly service producing the low trade tolls be not wrecked or damaged, and it is equally important that regulations be not imposed which tend to put a premium upon the unscrupulous in business.

I can not help but feel that there has not been enough effort to ascertain the exact facts regarding phases which have forced themselves unduly on the public attention by their spectacular character. The justification most commonly presented for the present proposed legislative regulation of exchange trading may, I think, be summarized thus:

First, that the exchange facilities this fall provided the means by which the organized attack on grain values reduced the price level on which the grower must thereafter sell his crop.

Second, that the exchanges, with their national price level, constitute the machinery by which unscrupulous dealers may depress the price level at the time of crop marketing and later advance it, with resultant profit on the purchases which were secured from the actual grower during the manipulated depression.

I think a study of the relative price level in wheat and of the actual marketing returns of the wheat grower disproves the first. I think a study of the crop movement and of price currents over a series of years will show that the second has not been done and is not possible. If we can establish the data in respect to these two charges against the misuse of exchange facilities we may obtain a truer perspective of the actual defects in the system and frame possible remedies with more chance of success.

In a study of the first phase, namely, the actual marketing record on this years' crop, I ask you to consider the attached Table A. This table is constructed on the most exact data obtainable and data which I believe to be as accurate is humanly possible. The results disclosed by this table run directly counter to the hearsay and conjecture statements which have formed too large a part of this fall's discussion of the farmer's position.

(Table A, submitted by Mr. Barnes, is here printed in full, as follows:)

TABLE A.—*Analysis of returns to growers and of losses falling on merchants on wheat marketed July 1, to Dec. 31, 1920, on the basis of average monthly farm prices applied to both farmers' and merchants' stocks.*

[000,000 omitted.]

	July.	August.	September.	October.	November.	December.	Total.
ANALYSIS OF FARM WHEAT VALUE.							
1. Wheat in farmer's hands beginning of month.....bushels..	48	415	292	366	286	240	.....
2. Add 1920 crop, less 18 per cent for seed and farm consumption..bushels..	470	.....	171	.....	.....	.....	641
3. Deduct farm marketings for month, based on monthly percentage movement (Grain Corporation 3-year average).....bushels..	103	123	97	80	46	34	483
4. Leaves wheat in farmers' hands, end of month.....bushels..	415	292	366	286	240	206	.....
5. Average farm price for month (average of Agricultural Department farm prices, first and last of month), per bushel.....	$2.43	$2.26	$2.17	$2.01	$1.66	$1.47	.....
6. Value of farm marketings at average price.....	$250	$278	$210	$162	$76	$50	$1,026
7. Guarantee price basis netted average farm price, $2.02½, 1917-18. Applied to this year's marketings to date (483,000,000 bushels).....	.....	.....	.....	.....	.....	.....	980
8. Wheat marketings this crop (75 per cent of total to market) has netted above guarantee equivalent.....	.....	.....	.....	.....	.....	.....	46
9. (Average weighted farm price of all wheat sold by farmers to Dec. 31, $2.12 per bushel against last year, same period, $2.13.)							
ANALYSIS OF MERCHANT LOSS.							
10. Wheat and wheat flour in merchants' hands beginning of month, bushels.....	110	140	192	218	228	215	.....
11. Add farm marketings for month, bushels.....	103	123	97	80	46	34	483
12. Deduct net exports and home consumption (38,000,000).....bushels..	73	71	71	70	59	56	400
13. Leaves stocks in merchants' hands, end of month.....bushels..	140	192	218	228	215	193	.....
14. Shrinkage in value per bushel, month to month, was.....	$0.17	$0.09	$0.16	$0.35	$0.19	[1] [2] $0.02	.....
15. Total loss to merchant due to this drop in farm price, based on stocks on hand at the end of each month, was in millions of dollars.....	$24	$17	$33	$80	$41	[1] $4	$193

[1] Increase.
[2] January 1, 1921, farm price used instead of average for month.

Mr. BARNES. For instance, line 9 clearly indicates that, treating the wheat crop as a whole, 75 per cent of the marketing from this crop has been sold in the first half of the crop year in such manner as to average the grower almost exactly the same price as was secured for the first half of the last crop year, at which time there had been no substantial deflection in the general commodity price level.

More than that, this remarkable situation is disclosed: That with 75 per cent of his wheat marketings from this crop now complete, the farm returns to the grower may be calculated to have actually exceeded by $46,000,000 the returns which would have been received under the average farm price reflecting the guaranty basis. Of course, on the 25 per cent of wheat marketings still to leave the farm, assuming that this remnant of the crop must be marketed at the present farm value, there will be a material fall below that general price level. But I presume it will be surprising, even to yourselves,

to realize that a careful analysis in this manner justifies the belief that, treating the wheat movement as a whole, three-quarters of it has left the farm at such a high average price—an average price equaling 267 per cent of the prewar 1913 average price.

This showing is worthy of the most serious consideration. The law of average is always cruel to the individual exception, and there are undoubtedly individuals who, not having marketed the customary proportion of their crop in the customary manner, have suffered the effect of the recently lower prices beyond that of the average grower. In the same manner, there are fortunate individuals who have undoubtly profited by marketing their entire wheat surplus at actually higher figures than in the last crop year and at an extraordinary per cent of relation to the prewar price.

Certainly the shrinkage in value from the high farm price level of July, August, and September to the average farm price of January 1, 1921, even though that January 1 price be 188 per cent of the 1913 average price, has fallen with some severity on some one. As a matter of fact, the loss by reason of that price decline has fallen most heavily on millers, merchants, and dealers who absorbed the farm movement during those earlier high priced months, and to the extent of total losses of almost $200,000,000.

The point is that there has been a widespread and, I believe, entirely erroneous impression that the shrinkage in values of this year's crop has fallen solely upon the farmer. Please note I refer thus only to the wheat crop, because in respect to the other grain crops the producer is undoubtedly in a less favorable position.

Also, I want to make clear that I do not minimize the necessity of extending the agricultural industry every possible aid and support at this time, but I want to make that aid effective, because it is based first on ascertaining the exact facts.

If action intended to aid agriculture should be based on false premises, its harm would be twofold, first, it would be ineffective in its remedy, and, second, it would create the impression that effective action was under way, and thus relax efforts which might produce results in other directions.

I desire to emphasize that a marketing structure which, in this year of commodity value collapse, makes the extraordinary showing heretofore referred to, in respect to the wheat crop of this country, is entitled to be studied with great earnestness, and interfered with only with great care. The emphasis has been laid on exchange trading in wheat as the cause of a large wheat producer loss this year, and an analysis of the facts does not sustain this statement.

In respect to the second assertion on which is based much suspicion and distruct of the grain exchanges, it is well to apply similar analysis of the actual facts. There has been built up a myth of a class of actual traders, unscrupulous and possessed of powers of foresight, that by superior information can calculate the currents of supply and demand, with their resultant price movement, and, knowing in advance the course which economic currents would take, manipulate the national price level of these exchanges, to profit at the expense of the more illy-informed grower.

It is impossible in advance to obtain exactly accurate information on probable supply and probable consumption. That story is only unfolded week by week, with constant maturing of crops, the demonstration of their actual flow into commerce, and the current con-

sumption record made week by week, with the extraordinary consumption fluctuations which necessarily follow the exercise of individual preference by hundreds of millions of consumers.

This great difficulty of ascertaining accurate data regarding crops and consumption is illustrated by the wide range of estimates given by trade authorities.

This year Canada assumes special importance as a contributor to the overseas supply of wheat, yet in respect to this very important factor in a world supply and demand situation, with its price influence, we find the following situation:

The official estimate of the total Canadian crop, made by the Dominion Government, for this last year, still stands at 293,000,000 bushels, of which western Canada supplies 264,000,000 bushels. Yet, within the past few days a grain firm of prominence at Winnepeg has issued an estimate of 216,000,000 bushels for the three western Provinces, and this estimate is confirmed by the secretary of the Northwestern Grain Dealers Association as being in his judgment a correct estimate, although 48,000,000 bushels below the Government estimate.

Manifestly, the world prices to rule at the end of the present crop year may be materially influenced by the gradual demonstration of the accuracy of one or the other of these widely divergent anticipations.

In the same way, we have a large variation in the estimate both of crop production and of the factors of home consumption as applied to our own United States, where, certainly, if anywhere, accurate information should be possible. The estimate by our own Agriculture Department for this year's wheat crop was issued in September at 750,640,000 bushels, with an acerage of winter wheat harvested at 34,163,000 acres. This was the most authoritative calculation on which trade policies could be based, and it stood for three months as the official Government estimate, until in December, without any previous warning, the Government raised its figures of winter wheat acreage to 37,993,000 acres, and its final estimate on the total crop to 787,128,000 bushels. Manifestly, again, the addition of almost 40,000,000 bushels to United States surplus would be a price-making factor of some influence in the final balance sheet.

In the same way the very important factor of domestic consumption of flour, even with the record of some years for guidance, shows a wide variation between various authorities. The average consumption of flour per capita in the United States in the three years prior to 1917 was 1.06 barrels, which, applied to the present population, would indicate a needed distribution for food purposes of 113,000,000 barrels of flour for this crop year. The official Monthly Crop Reporter for September, last, page 101, makes a normal per capital consumption in the United States even more, at 1.18 barrels.

Studies of production and distribution of flour for the first six months ending January 1 last indicate a distribution for that half year of only 51,100,000 barrels, or at the rate of annual distribution of approximately 102,000,000 bushels; or apparently an underconsumption of flour equal to 50,000,000 bushels of wheat. Manifestly, again, the creation of 50,000,000 bushels additional export surplus by a falling off in domestic consumption will have an important influence on prices at home and abroad.

Turning to American estimates of the exportable surplus of this country, made by various authorities, after calculation of these various factors, we have here also a considerable variation.

Prior to the corrected crop estimate which added 39,000,000 bushels to the total crop, Statistician Goodwin, of Clement, Curtin & Co., estimated the exportable surplus at 225,000,000 bushels, or adding the increase of 39,000,000 bushels to the estimate, we assume their estimate of 264,000,000 bushels exportable surplus. On the other hand, the Chicago Trade Bulletin, of December 17 last, using the Government's revised estimate, calculated an exportable surplus of 302,000,000 bushels. Manifestly, again, this developing of 40,000,000 bushels in the export contribution which may be further affected by lightened home consumption, will introduce a price-making factor of considerable importance.

Again, in the world price we have an important influence in the Argentine overseas contribution. Here again we find the same variation in honestly expressed opinions. As late as last November the Northwestern Miller's correspondent estimated Argentina's crop, then approaching harvest, at 244,000,000 bushels. On January 14, last week, the Argentine official estimate of the wheat crop now secured is 187,000,000 bushels. Manifestly, again, the question as to whether Argentina's contribution to overseas supplies will be 70,000,000 bushels greater than expected, or 70,000,000 less, will have a price influence as the truth develops.

Then in the balance sheet of the world we have estimates which are made with some authority, and which must be given due consideration, showing a greater range of advance calculation. For instance, there is a balance sheet of overseas wheat supplies and demand made last fall by the Canadian commissioner, Mr. Doherty, of the Institute of Agriculture, Rome, in which calculation of supply and demand needs he shows a probable import requirement overseas of 594,000,000 bushels, and a probable surplus from exporting countries to meet it, of 600,000,000 bushels.

On the other hand, it is possible now to take the same list of suppliers and, by using the more sanguine of the estimates, construct a possible supply of almost 800,000,000 bushels instead. Manifestly, again, 200,000,000 increase in overseas offerings would develop a price influence, if it should materialize.

The point I want to make is that, with the best avenues of information in the world, there are always such possible errors in advance estimates of supply and demand that it is impossible to accurately forecast the price movement. Only by the passage of weeks and of months, and by their gradual demonstration of actual movement into commercial channels and out, can more accurate information be obtained as to the relation of supply to demand. This means that merchants and millers, exporters and importers, must be constantly on the alert to revise their earlier information and opinions, and only by constant vigilance can they escape disaster and wreck.

Now, let us see how the wheat trade has succeeded in anticipating the actual developments of supply and demand, and the price affected thereby. I will ask you to examine this Table B, analyzing the wheat crops of the past 10 years, with the omission of the last three crops, which were affected by the Government fair price guaranty and stabilization.

(Table B, submitted by Mr. Barnes, is here printed in full, as follows:

TABLE B.—*Summary—Calculating gain or loss by fluctuation in average farm price on wheat in hands of dealers and millers.*

[In millions of dollars.]

	1910–11		1911–12		1912–13		1913–14		1914–15		1915–16		1916–17		Total, 7 years.	
	Loss.	Gain.	Loss.	Gain.	Loss.	Gain.	Loss.	Gain.	Loss.	Gain.	Loss.	Gain.	Loss.	Gain.	Loss.	Gain.
If accumulation of first six months of crop year had been sold out in following months, the net loss or gain after allowing 2 cents per month expenses of carrying:																
January	42.9		13.2		51.5		17.4			74.6	2.1			84.3		31.8
February	52.7		15.0		57.0		19.0			72.8	29.4			93.3	7.3	
March	56.9		11.2		60.9		22.1			74.1	35.0			144.2		32.2
April	58.0		7.0		61.2		25.8			71.4	37.9			174.4		55.9
May	61.0		9.5		63.8		34.4			59.7	51.3			165.3		5.0
June	65.2		16.7		69.4		42.2			55.2	48.5			162.9	23.9	

TABLE C.—*Analysis of wheat marketings in merchants' hands, showing profit or loss based on farm prices for years 1910–1917.*

Year and month.	Wheat in merchants' hands end of month.	Average farm price (per bushel).	Price change (per bushel).		Loss or gain on wheat on hand end of month.		Storage, etc., at 2 cents per bushel.	Net loss or gain.		Cumulative loss (roman) gain (*italic*).	Value to merchant of wheat on hand.
			Increase.	Decrease.	Gain.	Loss.		Gain.	Loss.		
1910–11.	*Bushels.*	*Cents.*	*Cents.*	*Cents.*							
July	99,000,000	97.1	0.3		$300,000		$1,900,000		$1,600,000	*$1,600,000*	$96,000,000
August	135,000,000	97.4		2.6		$3,500,000	2,700,000		6,200,000	*7,800,000*	132,000,000
September	179,000,000	94.8		2.7		4,800,000	3,500,000		8,300,000	*16,100,000*	170,000,000
October	212,000,000	92.1		2.7		5,700,000	4,200,000		9,900,000	*26,000,000*	195,000,000
November	223,000,000	89.4		.9		2,000,000	4,400,000		6,400,000	*32,400,000*	199,000,000
December	221,000,000	88.5	.7		1,500,000		4,400,000		2,900,000	*35,300,000*	196,000,000
January	212,000,000	89.2		1.6		3,400,000	4,200,000		7,600,000	*42,900,000*	189,000,000
February	198,000,000	87.6		3.0		5,900,000	3,900,000		9,800,000	*52,700,000*	173,000,000
March	177,000,000	84.6		.4		700,000	3,500,000		4,200,000	*56,900,000*	150,000,000
April	155,000,000	84.2	1.3		2,000,000		3,100,000		1,100,000	*58,000,000*	131,000,000
May	133,000,000	85.5		.2		300,000	2,700,000		3,000,000	*61,000,000*	114,000,000
June	111,000,000	85.3		1.8		2,000,000	2,200,000		4,200,000	*65,200,000*	95,000,000
Total					3,800,000	28,300,000	40,700,000		65,200,000		

TABLE C.—*Analysis of wheat marketings in merchants' hands, showing profit or loss based on farm prices for years 1910-1917.*

Year and month.	Wheat in merchants' hands end of month.	Average farm price (per bushel).	Price change (per bushel).		Loss or gain on wheat on hand end of month.		Storage, etc., at 2 cents per bushel.	Net loss or gain.		Cumulative loss (roman) gain (*italic*).	Value to merchant of wheat on hand.
			Increase.	Decrease.	Gain.	Loss.		Gain.	Loss.		
1910-12.	*Bushels.*	*Cents.*	*Cents.*	*Cents.*							
July	102,000,000	83.5	0.3		$300,000		$2,000,000		$1,700,000	*$1,700,000*	$85,000,000
August	130,000,000	83.8	2.8		3,600,000		2,600,000	$1,000,000		*700,000*	109,000,000
September	166,000,000	86.6	3.4		5,600,000		3,300,000	2,300,000		1,600,000	144,000,000
October	194,000,000	90.0		0.5		$1,000,000	3,900,000		4,900,000	*3,300,000*	175,000,000
November	203,000,000	89.5		1.8		3,700,000	4,100,000		7,800,000	*11,100,000*	182,000,000
December	199,000,000	87.7	1.5		3,000,000		4,000,000		1,000,000	*12,100,000*	175,000,000
January	189,000,000	89.2	1.4		2,600,000		3,700,000		1,100,000	*13,200,000*	169,000,000
February	174,000,000	90.6	1.0		1,700,000		3,500,000		1,800,000	*15,000,000*	158,000,000
March	151,000,000	91.6	4.5		6,800,000		3,000,000	3,800,000		*11,200,000*	138,000,000
April	128,000,000	96.1	5.2		6,700,000		2,500,000	4,200,000		*7,000,000*	123,000,000
May	107,000,000	101.3		.4		400,000	2,100,000		2,500,000	*9,500,000*	108,000,000
June	85,000,000	100.9		6.5		5,500,000	1,700,000		7,200,000	*16,700,000*	86,000,000
Total					30,300,000	10,600,000	36,400,000	11,300,000	28,000,000		
1912-13.											
July	121,000,000	94.4		6.6		8,000,000	2,400,000		10,400,000	*10,400,000*	114,000,000
August	162,000,000	87.8		3.2		5,200,000	3,200,000		8,400,000	*18,800,000*	142,000,000
September	205,000,000	84.6		1.0		2,000,000	4,100,000		6,100,000	*24,900,000*	173,000,000
October	232,000,000	83.6		3.7		8,600,000	4,600,000		13,200,000	*38,100,000*	194,000,000
November	240,000,000	79.9		3.8		9,100,000	4,800,000		13,900,000	*52,000,000*	192,000,000
December	247,000,000	76.1	2.0		4,900,000		4,900,000			*52,000,000*	188,000,000
January	245,000,000	78.1	2.2		5,400,000		4,900,000	500,000		*51,500,000*	191,000,000
February	230,000,000	80.3		.4		900,000	4,600,000		5,500,000	*57,000,000*	185,000,000
March	207,000,000	79.9	.1		200,000		4,100,000		3,900,000	*60,900,000*	165,000,000
April	181,000,000	80.0	1.8		3,300,000		3,600,000		300,000	*61,200,000*	145,000,000
May	156,000,000	81.8	.3		500,000		3,100,000		2,600,000	*63,800,000*	128,000,000
June	131,000,000	82.1		2.3		3,000,000	2,600,000		5,600,000	*69,400,000*	108,000,000
Total					14,300,000	36,800,000	46,900,000	500,000	69,900,000		
1913-14.											
July	105,000,000	79.8		2.7		2,800,000	2,100,000		4,900,000	*4,900,000*	84,000,000
August	131,000,000	77.1	.4		500,000		2,600,000		2,100,000	*7,000,000*	101,000,000
September	178,000,000	77.5					3,500,000		3,500,000	*10,500,000*	138,000,000
October	217,000,000	77.5	1.0		2,200,000		4,300,000		2,100,000	*12,600,000*	168,000,000
November	234,000,000	78.5	2.0		4,700,000		4,700,000			*12,600,000*	184,000,000
December	236,000,000	80.5	.8		1,900,000		4,700,000		2,800,000	*15,400,000*	190,000,000
January	228,000,000	81.3	1.1		2,500,000		4,500,000		2,000,000	*17,400,000*	185,000,000
February	225,000,000	82.4	1.3		2,900,000		4,500,000		1,600,000	*19,000,000*	185,000,000
March	205,000,000	83.7	.8		1,000,000		4,100,000		3,100,000	*22,100,000*	172,000,000

April	183,000,000	84.2					3,700,000		3,700,000	*25,800,000*	154,000,000
May	158,000,000	84.2		3.5		5,500,000	3,100,000		8,600,000	*34,400,000*	133,000,000
June	131,000,000	80.7		4.0		5,200,000	2,600,000		7,800,000	*42,200,000*	106,000,000
Total					15,700,000	13,500,000	44,400,000		42,200,000		
1914–15.											
July	95,000,000	76.7	8.2		7,800,000		1,900,000	5,900,000		5,900,000	73,000,000
August	134,000,000	84.9	8.5		11,400,000		2,700,000	8,700,000		14,600,000	114,000,000
September	184,000,000	93.4	2.0		3,700,000		3,700,000			14,600,000	172,000,000
October	225,000,000	95.4	2.5		5,600,000		4,500,000	1,100,000		15,700,000	215,000,000
November	236,000,000	97.9	4.8		11,300,000		4,700,000	6,600,000		22,300,000	231,000,000
December	220,000,000	102.7	16.2		35,600,000		4,400,000	31,200,000		53,500,000	226,000,000
January	196,000,000	118.9	12.9		25,000,000		3,900,000	21,100,000		74,600,000	233,000,000
February	165,000,000	131.8	.9		1,500,000		3,300,000		1,800,000	72,800,000	217,000,000
March	128,000,000	132.7	3.0		3,800,000		2,500,000	1,300,000		74,100,000	170,000,000
April	87,000,000	135.7		.1		900,000	1,800,000		2,700,000	71,400,000	118,000,000
May	57,000,000	135.6		18.4		10,500,000	1,200,000		11,700,000	59,700,000	77,000,000
June	31,000,000	117.2		12.5		3,900,000	600,000		4,500,000	55,200,000	36,000,000
Total					105,700,000	15,300,000	35,200,000	75,900,000	20,700,000		
1915–16.											
July	100,000,000	104.7		3.9		3,900,000	2,000,000		5,900,000	*5,900,000*	105,000,000
August	158,000,000	100.8		8.3		13,100,000	3,100,000		16,200,000	*22,100,000*	159,000,000
September	224,000,000	92.5	1.5		3,400,000		4,500,000		1,100,000	*23,200,000*	207,000,000
October	276,000,000	94.0		1.5		4,100,000	5,500,000		9,600,000	*32,800,000*	259,000,000
November	302,000,000	92.5	4.9		14,800,000		6,000,000	8,800,000		*24,000,000*	279,000,000
December	308,000,000	97.4	11.0		34,000,000		6,100,000	27,900,000		3,900,000	300,000,000
January	301,000,000	108.4					6,000,000		6,000,000	*2,100,000*	326,000,000
February	284,000,000	108.4		7.6		21,600,000	5,700,000		27,300,000	*29,400,000*	308,000,000
March	255,000,000	100.8		.2		500,000	5,100,000		5,600,000	*35,000,000*	257,000,000
April	224,000,000	100.6	.7		1,600,000		4,500,000		2,900,000	*37,900,000*	225,000,000
May	197,000,000	101.3		4.8		9,500,000	3,900,000		13,400,000	*51,300,000*	200,000,000
June	174,000,000	96.5	3.6		6,300,000		3,500,000	2,800,000		*48,500,000*	168,000,000
Total					60,100,000	52,700,000	55,900,000	39,500,000	88,000,000		
1916–17.											
July	132,000,000	100.1	19.1		25,200,000		2,600,000	22,600,000		22,600,000	132,000,000
August	161,000,000	119.2	14.6		23,500,000		3,200,000	20,300,000		42,900,000	192,000,000
September	197,000,000	133.8	13.6		26,800,000		3,900,000	22,900,000		65,800,000	264,000,000
October	223,000,000	147.4	12.0		26,800,000		4,500,000	22,300,000		88,100,000	329,000,000
November	224,000,000	159.4		4.1		9,200,000	4,500,000		13,700,000	74,400,000	357,000,000
December	211,000,000	155.3	2.3		4,900,000		4,200,000	700,000		75,100,000	328,000,000
January	184,000,000	157.6	7.0		12,900,000		3,700,000	9,200,000		84,300,000	290,000,000
February	160,000,000	164.6	7.6		12,200,000		3,200,000	9,000,000		93,300,000	263,000,000
March	131,000,000	172.2	40.8		53,500,000		2,600,000	50,900,000		144,200,000	226,000,000
April	94,000,000	213.0	34.2		32,100,000		1,900,000	30,200,000		174,400,000	200,000,000
May	61,000,000	247.2		12.9		7,900,000	1,200,000		9,100,000	165,300,000	151,000,000
June	21,000,000	234.3		9.8		2,000,000	400,000		2,400,000	162,900,000	49,000,000
Total					217,900,000	19,100,000	35,900,000	188,100,000	25,200,000		

Mr. BARNES. Starting with the crop of 1910, the grain trade that bought the first half year's current marketing, month by month, from the farmer, and carried the surplus over the current month's export and consumption needs, for the later profit, made no record for them to be proud of as investors. The theory of a depression during the early crop movement, to be followed by profitable advances later, is not borne out by this analysis. For instance, this method, followed without any hedging insurance, for the first six years referred to, including three years of actual war influence, would have resulted in a net loss, for the six years, on the accumulation of the first half of the crop year, as follows:

	Loss.
If the surplus had been marketed at the price obtainable in January...	$52,500,000
If the surplus had been marketed at the price obtainable in February..	100,600,000
If the surplus had been marketed at the price obtainable in March.....	112,000,000
If the surplus had been marketed at the price obtainable in April.....	118,500,000
If the surplus had been marketed at the price obtainable in May.....	160,300,000
If the surplus had been marketed at the price obtainable in June.....	186,800,000

The surplus of the one crop of 1916–17, bought in the first half of the crop year, was aided by the inflation which followed our entrance into the war in the spring of 1917; yet, adding all the increase in value of that one extraordinary crop year, the grain trade result for the seven years would have been as follows:

If marketed at the average price in January, a gain of.....	$31,800,000
If marketed at the average price in February, a loss of.....	7,300,000
If marketed at the average price in March, a gain of.....	32,200,000
If marketed at the average price in April, a gain of.....	55,900,000
If marketed at the average price in May, a gain of.....	5,000,000
If marketed at the average price in June, a loss of.....	23,900,000

There is nothing in this showing that would repay the cares and anxieties and hazards of seven years of absorption of crop marketing with the enormous pledging of credit and resources which must have been used daily and monthly for seven years.

There is nothing in this record that sustains the popular myth of supernaturally astute grain interests fattening on price depression in harvest time and price inflation later.

But what we, as fair-minded men with the interests of the great producing class at heart, want to accomplish is to see what improvement in the position of the producer can be secured. I believe there are steps which can be taken that will greatly improve the grower's position. These suggestions which I shall make require the study of experienced and able men; they require the influence and prestige of an agency of proven ability and character. The changes which I suggest should come preferably by voluntary trade action and private initiative rather than by rigid and inflexible regulation.

I make the suggestion, therefore, that you seriously consider the creation of a national marketing commission, to be composed of men especially fitted by ability and experience and by an appreciation of the public service to be rendered, who will study the various phases of our national marketing in all its aspects. I would suggest, perhaps, that that commission be, at present at least, solely for an investigation of the facts and recommendations back to the legislative bodies but with authority to endeavor to secure by a voluntary cooperation of the trades themselves those improvements which their inquiry leads them to believe to be desirable. There are so many phases

service to be rendered by such intelligent and careful consideration of marketing problems that I can only touch on a few which suggest themselves most insistently.

Broadly speaking, the grain storage facilities of the country are adequate. Because of the fluctuation in sectional production, local scarcity of elevator storage may occasionally develop, but even this is improbable if adequate and liquid rail transportation be maintained so that grain can be moved to the ports and central markets. The licensed elevator capacity in the United States, as shown by the exact records of the Grain Corporation, was as follows:

	Bushels.
Country elevators	521,000,000
Mill elevators	150,000,000
Terminal elevators	262,000,000
Total	933,000,000

At the highest point of grain in storage at any one time during the administration of the Grain Corporation, as shown by the weekly licensee reports from all operators, there were 480,000,000 bushels of all kinds of grain. Unnecessary duplication now of storage facilities would be a distinct additional economic burden and expense.

Here is a great service to our farmers which can be worked out, again preferably by voluntary cooperation rather than Government regulation. This service would be to make storage facilities available for every individual farmer and evidenced by a negotiable certificate, which would also help solve the farmers' problem of finance. The best class of collateral in America, and the collateral most readily accepted by banks as security for loans, is a warehouse receipt for grain in storage, adequately secured as to responsibility, and its collateral value determined every business day by the actual trading value on the terminal exchanges.

It is possible to extend to the individual solvent farmer this advantage of ready collateral. It is certainly not in the public interest that a solvent farmer, with grain which can be properly evidenced as to its quantity, quality, and position, should not be able to exercise his marketing judgment as to its time of sale, the same as any merchant with a similar stock of grain.

It is also greatly in the interest of economy of farm operation that he should be able to haul his grain to storage or to market at those periods when the absence of other farm work allows this hauling with most economy. It is greatly in the interest of the farmer's final marketing return that he should be able in this way to put that grain in a position for sale at a moment's notice, when his marketing judgment so directs.

All of this can be accomplished by changes in the methods of operating country station elevators in certain sections of our country. At the country station the grower's first contact with a marketing system develops. If there be only a single elevator and a single buyer, and thereby without local active competition, this facility acquires a mild form of monopoly which invests it with a public interest. It is, to be sure, a great local service, and entitled therefore to be treated with great consideration. Moreover, it is a very hazardous business venture, for America is dotted with elevators, dismantled and useless, as grain production has decreased or disap-

peared in their localities. But, broadly speaking, these country elevators are not fulfilling their full service to the producer. I do not believe it is the national interest that a producer desiring to haul his grain to the local elevator should be compelled, without alternative, to accept a grade and a price named in the judgment of a single local buyer, no matter how fairly that buyer may try to operate. To be sure, occasionally, there is some measure of potential competition as between, per haps, several stations, each with their own buyer. within hauling distance. At many stations, also, there are several active competitors for such purchases.

I believe most of these country elevators could do a warehousing business far beyond the actual capacity of their houses and under adequate safeguards which will give the farmer his opportunity to haul any time, accept a price, or store and receive a negotiable certificate which will be readily accepted by banks as security against loans. To do this, beyond the actual storage capacity of the country elevator, there must be given to the elevator operator the right to ship on to the large terminal warehouses and to deliver in these terminals, at a proper freight and charge relation, the grain for which he has issued a country elevator ticket. To make these country storage tickets negotiable and safe for both farmer and banker on a wider security than the character and resources of the local elevator operator, there can be developed, I am sure, a form of insurance of them by large liability companies. This is not a new phase, except as to country elevators, for the terminal warehouses receipts at many of our large primary markets are secured by bonds deposited by liability companies with the local exchange authorities for whole or part value of outstanding receipts. The development thus of the security of such country tickets representing grain in storage at country points would of itself create the opportunity for outside buyers to compete with the elevator operator in the purchase of such tickets, and thus assure a price to the owner made by active competition. always the safest measure of a just price.

The further underlying question, however, is again whether the grower must submit, unquestioned, to the judgment of the local buyer on the question of grade, or dockage, on his grain, eventhough there is set up a form of active competition which protects him as to the local price with relation to the terminal market. It seems feasible that elevator operators and state authorities by mutual agreement could set up a tribunal of appeal which satisfies the producer of fairness of treatment in these respects, on which a difference of opinion is almost inevitable. The majority of country buyers are absolutely fair, and their honest judgment as to the proper grade of any given lot of grain is probably as accurate as the grower's own judgment, but there is a perfectly human revolt against being forced without alternative to accept the judgment of the other side, with a self-interest in the result.

The Grain Corporation recognized this clearly and in the contracts. executed in support of the wheat price guarantee in the year 1919 assuring the country dealers against loss on wheat bought from growers on the guaranteed basis, there was written a voluntary agreement on the part of the dealer, that any producer, dissatisfied with the grade and dockage proposed by the buyer, could appeal by mail with a sample to the regional vice president of the Grain Corporation.

and the dealer agreed to accept the judgment of that vice president as final, subject only to appeal to the Wheat Director.

By cooperation with the Bureau of Markets administering the Federal standards these samples were passed on by the expert supervisors of the Bureau of Markets in the several districts. It is remarkable that out of probably 5,000,000 wagonloads of wheat marketed during the year, the Grain Corporation in all its offices had less than 500 appeals for such revision of grades, dockages, or even of the relative price offered—a showing which stamps the country grain trade with a presumption of fair treatment.

I believe there is also a wide significance in this as showing the desirability, in the interest of commercial harmony, of giving an aggrieved seller an opportunity to appeal to a disinterested arbitrator on the simplest possible methods, and without expense.

There are now prescribed Federal standards applied to most of our standard grains. It may be fairly criticized that these standards are too numerous and finely drawn for the greatest economy in storage and transportation, as necessarily divisions into a large number of lots to be kept separate does not tend to economy in either phase. To facilitate available country storage in the manner I have discussed, there must be modifications of these numerous divisions of Federal standards, or certain rights to combine closely related qualities, in the judgment of the elevator operator, for the purpose of ready storage and shipment. These are details which can be readily worked out.

Such a marketing commission could well consider and recommend some method by which every individual grower could secure promptly the most accurate information on the market prices and supplies. The Department of Agriculture does this to a useful extent to-day, and might well widen and quicken their service following experienced suggestions.

Such a marketing commission could well ascertain the service possible to the growers of this country by cheapening the transportation cost of foreign marketings, such as is apparently quite feasible in the proposed St. Lawrence waterway.

The improvement to be effected in the farm price relation to the foreign consuming market which would follow the introduction of ocean carriers to the western lake ports, or the extension of the lake carrier's water voyage to the St. Lawrence seaports, would seem to be susceptible of demonstration. The improvement in the readiness of marketing opportunity in the sections served by the western railways, if those lines discharged their export carloads to ocean steamers at western lake ports instead of sending their cars into the congested Atlantic ports, would be of immense marketing service to the producer.

Such a commission should give a comprehensive study to the results of cooperative marketing movements, at home and abroad. Such study might relieve the cooperative movement of its present danger of hasty duplication of existing equipment, and such a marketing commission might work out a fair method of securing the advantages of cooperative development through some use of existing trade machinery. No greater national service could be performed than to aid this great cooperative movement, which has legitimate functions in its own certain fields, from wrecking itself in advance by over-extension and over-burdening by superfluous investment.

We are now in the midst of an appalling collapse of commodity values. Raw materials and finished products of many kinds are temporarily unsalable at any price. Merchants in many lines have seen their capital resources impaired or wiped out entirely, unable to limit their losses at any point, no matter what their willingness to sacrifice might be. What would it have been worth to them, and what to the banks, who have seen the security behind their loans grow doubtful in value, for such merchants at some point to have exchange trading in their commodities or the basic materials whose price fluctuates with their finished products, so that they could preserve something of the capital investment against the disaster which follows total suspension of possible sales? Through all this collapse the grain markets have performed their daily and hourly service of providing such protection. Their quotations of values have been real trading points, accepted for collateral values, and effective in limiting the losses of liquidation. More than that, measured by the record in wheat, with its open exchange trading, the fall has been greatly cushioned and retarded by the trading on these great exchanges.

If, in wheat, not only the fall has been lessened, but credit retained, trade solvency preserved, and the public benefit of low trade tolls preserved through such price dislocation and its resulting hazards, is it not worth a great national study by men equipped for such service, to see how far this distinctly American hedging marketing system could be intensively developed, and perhaps extended to other basic commodities susceptible to the standardization that permits of trading in contracts for future delivery? Is it not worth while to see whether the same methods could be extended to dairy products, to packing-house products, to wool as well as to cotton, and to semi-perishable products, such as beans, or rice, or potatoes? The very security against large price loss, because of the insurance of a national price level hedging, enables the merchants to distribute along the lines of greatest economy to the most necessitous market at the time of their exact consumption needs.

Such a commission could perhaps work out such terms of contract delivery as would permanently remove from the hedging markets the danger of manipulative congestion and, with this condition created, a wider public confidence in the hedging service and a wider use of that insurance feature.

This further development is possible even in the highly organized wheat trades of the country, for the secondary handlers of the finished products have not yet learned the full benefits that follow the use of the insurance feature in the handling of the products of wheat. Would there, for instance, have been in the six months just ended the falling off in mill consumption in this country by 70,000,000 bushels of wheat had the flour jobber generally learned the security against investment loss by the use of wheat hedges? If the mills had not lost a large part of their usual fall trade by this timidity of the flour buyer would they not have absorbed in American milling purchases a larger volume of our farm marketing of wheat, both for current grinding and in anticipation of a continuance of larger mill consumption thus indicated? Would not this mill buying dipping into the current stream of wheat marketing have lightened the actual pressure on wheat markets at home and abroad, and thus have tended to a better protection of the price?

Would our textile mills stand idle to-day awaiting buyers that hesitate to purchase because of the risk of trade price declines if those buyers had been trained to hedge their commitments in the basic raw materical markets?

The emphasis I put upon the service and the findings of such a commission is this: That the benefit of the future delivery market system, with its hedging facilities, should teach all our people in the form of narrower trade margins on the commodities handled. All the phases of ready competition, adequate credit which creates such competition, and avoidance of overloaded markets by the lack of pressure into hasty marketing are only parts of the complete national service to be rendered; but, beyond these phases, such a marketing commission can certainly work out steps which will put the producer where we all agree in the national interest he should be, namely, that solvent as he is, and possessing farm products of universal need, he should not be forced by financial obligations into a position where he can no longer exercise his individual marketing judgment.

Vaguely, and perhaps confusedly, the producer feels to-day that he has not a sufficient voice in either the manner of marketing or the price which his products shall receive. The issue will shortly be drawn between a producer attempt, by combination and withholding farm products, to force a price basis more to his liking and a method which cultivates self-reliance, self-decision on the part of the producer, by giving him more complete freedom in the selecting of his marketing time and price. I believe the latter method is the American way and that the foundation for that solution is laid in the American system of great exchanges, with their daily price information available to every producer. Only common sense and resourcefulness are necessary in order to extend the benefits of that system to every farm.

These are big questions, of great national import. Perhaps their solution requires the support of legislation. Very probably they can be worked out by voluntary action of the affected trades, themselves. For either purpose, they require investigation, public and private, and the resultant opinion of men of ability, experience, and devotion to the national service.

I again lay special emphasis on the need of great care and lack of haste, because I believe fair-minded men in Congress have been influenced by statements which do not stand impartial analysis. I think Congress and the trades themselves greatly need accurate information of the kind I have suggested before they can safely determine a proper course.

Therefore, I urge the total suspension of such legislative attempts as the bills before you contemplate in favor of an effort to get more exact and reliable information and more fully considered recommendations through the creation of a national marketing commission.

Mr. Chairman, I have tried to lay before you the method of reasoning by which I reach certain conclusions. The important one, the one of most interest to you, is that legislation such as is contemplated in either of the two bills before you is very likely to do more harm than good. They are based on a recognition of a defect in the conduct of the business which every fair-minded man must recognize, but we differ on several points.

First, I believe that the minor speculation which is present in these markets repays this service by the liquidity of ready trading,

which preserves these trade tolls narrow in the public interest; and that the manipulative trading, which we all condemn, is very infrequent, and unless it can be eliminated without destruction of the basis function, may well be accepted as incident to the many public services of exchange grading.

I am afraid that making the process of simple trading on the exchanges more cumbersome, as those bills would do, would be to narrow the circle of absorptive buying, and this country which produces in three months, as I have said, a surplus for 12 months, must have that buying encouraged without absorption.

I shall be very glad to discuss either my statement or any other phase of the subject that you may desire.

The CHAIRMAN. Have you concluded your statement?

Mr. BARNES. Yes.

Mr. WILSON. There has been a lot said in the hearings about hedging and speculating. I wonder if you can give us your idea as to the difference between the speculator and the man who hedges? What is the result of the two methods of trading?

Mr. BARNES. I think the trade definition of a hedger would be one who used the exchange future trading for the purpose of having an equivalent amount bought or sold against actual grain or actual contracts made on the other side, so that he has no expense in the form of a surplus of more grain bought than sold or more grain sold than bought.

Speculation is a very indefinite term. Of course every man speculates when he makes any investment, in securities or anything else, but I would not define speculation in that way at all. I think those transactions serve a very useful economic function. But what we generally have in mind in the use of the word "speculator" is that a man might have more grain bought than sold or more grain sold than bought.

Mr. WILSON. Mr. Chairman, I would like to ask some questions, but I know you will go into this grading proposition, so I shall not go into that. I want to hear what you have to say with reference to that, and for the time being I do not care to ask anything more.

Mr. MCLAUGHLIN of Michigan. I have no questions.

Mr. PURNELL. Do you differentiate, Mr. Barnes, between speculation and what we commonly call gambling on the board of trade?

Mr. BARNES. I think you can only measure that difference by the intent, after all. There certainly is a class of speculation which is, by its very intent, pure gambling.

Mr. PURNELL. I believe some of the witnesses who have testified before the committee have, directly or indirectly, given us the impression that speculation is necessary to stabilize the market. I am wondering, assuming that some manipulative or gambling business is done, if that could be eliminated without in any way hazarding the stabilization?

Mr. BARNES. Frankly, I have not been able to see any way to protect against manipulative speculation, which may well be classed as objectionable in every way. To eliminate that without destroying the liquidity or readiness to trade and cover contracts, which is the very essence of these narrow trade tolls, it is not enough to protect the trades against radical changes in price—that is a great security—but there is a further service performed by this trading, which is

the ability to cover a contract in two minutes, which could not be done if you limit the trading to hedging against actual grain.

Mr. PURNELL. Then it is your idea that these features must be maintained in the present system, in order to give this liquidity to the market about which you speak?

Mr. BARNES. The minor features of that, yes. I do speak of the exaggeration which I hope to see the trade themselves work out in time. At least we have made this much progress, that it is frowned upon as being unethical to use large resources to purchase wheat and influence the price level, even temporarily. It is not good ethics, any more than spitting on the carpet is good ethics these days.

Mr. PURNELL. I think that is all now, Mr. Chairman.

Mr. YOUNG. Mr. Barnes, about how many boards of trade and exchanges are there that operate in the grain markets in our country?

Mr. BARNES. With future trading?

Mr. YOUNG. Yes.

Mr. BARNES. Of course the great market is Chicago. Its geographical position, being surrounded with a great grain country producing various kinds of grain, gives it an immense trade advantage; but besides Chicago there are Duluth, Minneapolis, St. Paul, Kansas City, and Omaha. There is no future trading in any of the eastern seaboard markets. I should say that six or eight grain markets practically constitute the exchanges to-day where there are future tradings.

Mr. YOUNG. Would a decrease or increase in the number of exchanges have any particular effect upon market conditions?

Mr. BARNES. I should not think so; I think they follow naturally where the grain flows and needs security.

Mr. YOUNG. Do they have such exchanges in foreign countries operating upon pretty much the same line as the exchanges operate in this country?

Mr. BARNES. No; I do not think any of their exchanges are developed as ours are here.

Mr. YOUNG. Are there any countries producing wheat, for instance, that are absolutely without exchange facilities?

Mr. BARNES. Oh, yes. Russia has no exchange facilities.

Mr. YOUNG. And not much of anything else at the present time?

Mr. BARNES. India has none and never did have.

Mr. YOUNG. How about Argentina?

Mr. BARNES. Argentina has a central market. They are trying to frame it so as to get the benefits of our system. But the benefit of the system is not alone in the system itself; it is in the genius of the people, and they have not a people of self-reliance and resourcefulness such as we have, and they never would successfully develop a market system along the line of ours.

Mr. YOUNG. Is Argentina a very great wheat-producing country?

Mr. BARNES. Yes; it is very important.

Mr. YOUNG. And they have not developed their exchanges to the point that our country has developed them?

Mr. BARNES. No.

Mr. YOUNG. With reference to the actual marketing of grain in Argentina, how do the prices to the farmer there compare with the prices to the farmer in our country?

Mr. BARNES. I do not want to make the statement without accurate data, but by report, such as the comment of men who have traded there, without the exact figures, there is a general expression of conviction that the farm price in relation to the seaboard price, which is their market price, is dictinctly less advantageous than ours.

But remember this, that, broadly speaking, there is not a farm in Argentina with a rail haul longer than 150 miles to a seaport, while in the United States we have farms that are 2,000 miles from a seaport.

Mr. YOUNG. Do you happen to know the condition of the Argentine wheat producer or grain producer with reference to the return from his product based on his expense account in producing the different crops? How will his condition compare with that of the average American farmer who produces like grain?

Mr. BARNES. I certainly have a very clear impression that he is not in the same class by any means.

Mr. YOUNG. Better or worse?

Mr. BARNES. Much worse.

Mr. YOUNG. Not so prosperous?

Mr. BARNES. Not nearly so prosperous.

Mr. YOUNG. Do you consider that their marketing system, not being developed so well as our marketing system, is one cause for that?

Mr. BARNES. It certainly would contribute to it.

Mr. YOUNG. There is another branch of this bill that refers to the cotton exchanges. We have only two cotton exchanges in this country, one in New York and one in New Orleans. Have you given any particular study to that branch of the marketing question?

Mr. BARNES. Only to this extent, that I have made some inquiry as to whether this same method of facilitating farm storage and giving a negotiable certificate, against which he could borrow for his pressing financial needs, is practical with reference to cotton. I am convinced that it is. I am convinced the same system could be set up for the relief of the cotton grower.

Mr. YOUNG. As a matter of fact, Mr. Barnes, it has actually been proved that a bale of cotton, as I recall, in one of the warehouses in the South has been kept in storage for nearly a hundred years, and when it was put in the mill its spinning value had not deteriorated in the least. In other words, that lint cotton will not deteriorate if you keep it out of the weather. Of course that quality of that product would render it especially fitted for warehousing?

Mr. BARNES. Yes. You are probably more familiar with that tnan I am, but is it not possible to set up warehouses for that cotton at relatively very little expense?

Mr. YOUNG. We are trying to do that very thing now; it is the crying need in the South, as a matter of fact. Most of our cotton goes into the open cotton yards, where it is subject to weather conditions and forced by weather conditions to go on the market. But we are developing a warehousing system very rapidly at this time. I thoroughly agree with you that that is one of the important things.

Mr. BARNES. Let me ask you a question, because I like to get all the information I can. Is the cotton grower forced by his obligations, due to the local storekeeper largely as well as to the banks, to put his cotton into the market against his own marketing judgment?

Mr. YOUNG. That is absolutely true at the present time. That was, of course, brought about by an unfortunate condition in our history, when we had the conflict between the States. After the War the South was left completely bankrupt and was driven to a one-crop proposition, because cotton was the one crop out of which they could get the ready money which the people had to have to pay their debts. But we have had the haphazard system of simply marketing through the cotton yards, and that meant that the farmer had to sell within a period of 60 or 90 days, which made a very unfortunate season of marketing for him.

Here is what I want to get at. About 65 per cent of the cotton crop in normal times is an export proposition. In my own State of Texas we produce from one-third to one-fourth of the cotton of the South, and between 80 and 90 per cent of the Texas crop is an export proposition, because we are there on the seacoast.

Now, there are exchanges of some kind in Liverpool that deal largely with cotton, and, taking the course that public sentiment seems to be following, there is a great element of our people that are absolutely in favor of abolishing the two cotton exchanges that we have. As I say, they function somewhat along the lines of the wheat exchanges, as I understand it. Now, what in your judgment would be the result if that line of thought were adopted as a policy and the two cotton exchanges in this country driven out of business? Sixty-five per cent of the commodity is exported, and there would be left nobody that would have any control over the exchanges in Liverpool.

Mr. BARNES. I think there is only one result to follow that, and that would be an early and extraordinary price fluctuation, and in extraordinary price fluctuations the man of large resources profits and the small man is swamped, almost universally. It would be definitely in the interest of large combinations of traders and against the small grower, in my judgment.

Mr. YOUNG. There is a further point in that connection. It is very natural to suppose that the people in Liverpool who consume the raw cotton do not produce it—except some of their colonial possessions—and it is their natural inclination to be a bear on the market, just as it is the southern producer's inclination to be a bull on the market. Now, through the operation of the exchanges in that consuming part of the world, would there be left a power that they could exercise that we could not offset if our exchanges in this country were to stop?

Mr. BARNES. Without question. The grower would be thrown more directly on the interest of the buyer, whose interest runs directly counter to his own.

Mr. YOUNG. So that if that were true, if we should abolish the exchanges in this country, it would have a direct effect on me as a producer of cotton as to the value of my product?

Mr. BARNES. I think so, without question.

Mr. YOUNG. That is one of the things that is very troublesome in all this legislation. We had that same question here some seven or eight years ago.

Now, to get back to our exchanges here. You take a county like my county, one of the black-land counties of Texas. We have probably eight towns with populations ranging from 1,500 to as high as 10,000. It is an agricultural county. Each of these towns has a

local cotton market. The farmers adjacent to these various towns go to the nearest town to sell their cotton as they gather it from their farms.

There are other towns in the county with a population of from 3,000 up which have these blackboards. They raise a purse and employ a man whose business it is to get these quotations every minute as they come from the exchanges in Great Britain and in this country.

Now, I discover this situation in traveling around those sections where they have those blackboards. Here will be a business man, a man on the street, or a farmer, who will drop into that room. He sees these quotations for the various months. Here is the month of March, for instance, and the quotation is so and so on cotton. He decides that price is too low, and he tells this fellow at the blackboard, who is a telegrapher, "You buy me 100 bales of March cotton," or sell, as the case may be. Now, although that fellow may be a farmer, he does not expect ever to handle a hundred bales of actual cotton; that is not in contemplation at all. But he expects to take his profit, or his loss, as the case may be, on this March contract. He does not know whom he is dealing with at the other end of the line. That thing has grown to be a universal custom all through that country—all over the South.

What is your idea as to the effect of that condition that has developed under the present exchange operation as applied to cotton? Is it a healthy condition or ought that condition to be stopped?

Mr. BARNES. I would not say that it ought to be stopped. As I say, the measure of that depends really on the circumstances and the intent of the individual. But certainly a man in the cotton district, a farmer or a business man, knowing the cost of producing cotton and feeling that it was at this time, for peculiar reasons, below the cost of production and must in time correct itself, performs a public service by making an investment in cotton. His investment must be made in one of two ways. He goes to the plantation of John Jones and buys his cotton, stored in John Jones's warehouse on his own farm and subject to fire and deterioration and theft, or else by a system of properly safeguarded warehouses there is set up a method by which that cotton is lodged in the terminal market, and he can by the simplified hedge reach back through these stages to the exact identical cotton. We simply make it easy for him to go into the market, instead of making it cumbersome for him, and thereby widen that absorption.

Mr. YOUNG. That is true; in fact, these particular individuals that I am talking about now—take this present year. Everybody in the cotton belt knows that we made this crop on the most expensive basis that ever a crop was produced on in the South. So these individuals who go into these rooms where these blackboards are maintained do not, as a matter of fact, figure on the cost of making this crop, but they are just blindly guessing that the March contracts will be up or down, and buy accordingly.

Mr. BARNES. Well, they must have a reason for believing that those March contracts will be higher or lower, and whether they have consciously or unconsciously reasoned it out, they feel that the present price will have a counter swing by reason of the economic forces which will put it back.

Now, I would not discourage that kind of trading. I believe the American genius is to realize the future result of economic price levels, and that the American initiative is to take a chance on it. It may be classed as speculation or gambling or as investment, just as your own particular temperament may direct.

Mr. YOUNG. Let me take another angle of it—and I want to say I am tremendously worried over the proposition. I do not want to take a wrong step in voting on these measures that we have under consideration. What I do want, if we adopt any legislation, is legislation such that the fellow who produces these raw materials, whether wheat or cotton or whatever it may be that the people must have to live—I want a system of markets such that the fellow who produces these things for humanity can have a market that will encourage the country boys to stay on the farm. In my opinion that is the hope of our country in the future, to get people on these farms to be stable citizens, and they are not stable under conditions as they exist at this very moment in my section. I never saw such a turmoil as we have got now. It makes it a tremendous question for us to pass on here.

Speaking from personal knowledge, I know a 2,200-acre cotton plantation within a mile and a half from my home town. It is worked by tenants on the basis of a third and a fourth—the landlord gets a third of the grain and a fourth of the cotton, and the tenant takes the rest. Under that system the tenants not only furnish their own labor but hire the additional labor necessary to make these crops. That labor costs them $4 a day on the farm; in normal times we got that same labor at $1.50. Cotton is picked, not by day labor but by the hundredweight. In normal times in the early part of the season we paid 50 cents a hundredweight; this season it costs $2 a hundredweight to pick that cotton, which means $32 a bale. So with the uncertain market conditions that prevail and the great expense of making that crop, this 2,200-acre farm, if the crop were cashed in at this time, would show an absolute loss on the operation to both the tenant and the landlord. That is the condition that is confronting the cotton belt.

Of course, those people are in such a frame of mind that they are willing to have us do something drastic, which is a very unsafe condition of mind for people to be in.

To get back to the question, here is your marketing system. Is there any suggestion that you could make that would help us to work out a more suitable system, that would encourage these people to produce that which the world needs—and they do need every bale of cotton that is now on hand?

Mr. BARNES. Yes; I have a very specific suggestion.

Mr. YOUNG of Texas. I would like to hear it—as to cotton, I say.

Mr. BARNES. And that is to lay right hold of this fundamental that the grower has a right to have a voice in his market; that it is not in the national interest when he is forced by accumulated obligations to market—being solvent—his product by the very pressure of those financial obligations, if you can put him in shape so that he can have a measure of self-determination; and we can do that.

I do not mean by that, that the grower of cotton or the grower of other necessities, will not at times have to take less than the cost of production. The economical law does not work that way. Cotton,

using your instance, is not an article of daily, absolute necessity, as is food; and when half the world is wrecked the cotton grower is not going to find a ready market for something that people can stave off the day of purchase of. That is what he is feeling to-day. He will only recover his prosperity when the consuming portion of the world recover their buying power, and that is not this month or next.

Mr. JACOWAY. Would you suggest to a man who had cotton and could hold it to continue to hold it?

Mr. BARNES. I would not dare to do so, on the present price level. All I emphasize is that the individual cotton grower be furnished with accurate information; that he ought to be put in position where he can reach his own marketing position without being forced into it by pressure of financial obligations if he is solvent.

Mr. JACOWAY. If he is solvent and can hold it?

Mr. BARNES. Yes. Maybe he will feel it wise to sell; maybe he will feel that next year's crop will not be so good and that he will be justified in holding it a little longer.

Mr. JACOWAY. My reason is that if he is not broke, he would have all to gain and nothing to lose by holding it.

Mr. BARNES. It does not seem possible that the world is going to stop using cotton, but just now the world is temporarily bankrupt, and they can not buy anything except what they need to keep the breath of life in their bodies.

Mr. JACOWAY. If present conditions continue to exist, are you prepared to state how many bales of cotton will be carried over?

Mr. BARNES. No, I can not comment on the cotton statistics.

Mr. JACOWAY. It is estimated nearly a million bales; therefore that would be correct.

Mr. BARNES. I would not care to express an opinion, because I have not studied cotton statistics.

Mr. YOUNG of Texas. Just one further point, and then I am through, Mr. Barnes: You gave the figure there as to the export of the wheat crop from our country to foreign countries. I do not recall what percentage that bears to the total crop of our country.

Mr. BARNES. I gave you a number of estimates from the daily price bulletin, whose estimates are recognized in the trade, and which estimated that we had 300,000,000 bushels of wheat for export from this country this year. That would be a little more than 30 per cent of our total wheat supply.

Mr. HULINGS. Does that take into view the Canadian exportations?

Mr. BARNES. No, that is just the United States.

Mr. JACOWAY. That is 30 per cent in round figures of the crop we produced; the other 70 per cent would be home consumption?

Mr. BARNES. Yes.

Mr. JACOWAY. Would not that have a little different problematic bearing on foreign marketing of cotton, for instance, where 65 per cent is exported?

Mr. BARNES. Of course, that is very different.

Mr. JACOWAY. It makes a very different proposition?

Mr. BARNES. Very different. But there is also American raw commodities and finished commodities that do have an American market for 70 or 80 or 90 per cent that are unsalable to-day because of the

temporary condition in our own markets, and it is only extendable to cotton because they have 70 per cent——

Mr. JACOWAY (interposing). As a matter of fact, when the European people by reason of bankrupt conditions could not afford to buy cotton which they really need to keep their mills in operation—they are not running in any part of Europe——

Mr. BARNES (interposing). That is it.

Mr. JACOWAY. Which brought about a condition in our own market that the American manufacturer withdrew himself from making the purchases that he would have made in normal times. Of course, the situation we are operating under is both abnormal in the foreign countries and here, and the question is, can we do anything that will relieve it?

Mr. BARNES. Now is the time to study the situation and stand four-square against popular pressure that may be all wrong.

Mr. JACOWAY. My point, however, is that about the only thing we can do is to establish some kind of foreign credits so that these people can get in the market and buy the stuff they need and we have got. How that can be worked out I do not know. Congress recently reestablished the War Fiannce Board in the hope that that will do some good in that direction.

Mr. BARNES. They are all helps.

Mr. JACOWAY. I believe that is all.

Mr. TINCHER. Mr. Barnes, I understood you, in answer to a question by Mr. Purnell, do you, in effect, that if it were possible to do away with the wild speculation or gambling in grain futures and not disturb the legitimate hedge, that that would be a step in the right direction. With that idea in view, I introduced a bill which is pending before this committee, attempting to eliminate the undersirable gambler in futures and to not disturb the legitimate transaction. As I understood you, and as a good many witnesses have also testified, who are familiar with the exchanges, the objection to that measure is twofold: First, that three times the sale would narrow the trade to the extent of injury; second—and the one I will frankly state to you that impresses me as much, if not more than the first—is that to limit the transaction, as I have attempted to in my measure, would probably have the effect of enabling certain men to have more of a monopoly than they now exercise in the grain trade; is that your view of the measure I have introduced?

Mr. BARNES. Yes, sir. Of course, I start on a different assumption, Mr. Tincher. I believe there is a measure of public service in the form of insurance service rendered by liquid and ready trading that the speculator can well be excepted if they are up to the point where his trades become manipulative in character, and I do not believe you can write into a regulation a protection against that manipulative trading without disturbing the other service.

Mr. TINCHER. My bill does not contemplate, as you have described in the beginning of your testimony there, that if we do away with the exchange that there would not be any way to hedge. I did not contemplate in the preparation of that bill doing away with the hedge. I recognize the need for an exchange. But I sought to eliminate the unnecessary gambling in futures by confining a man not as to quality but to three times the quantity of the product that he actually handled

in trading in futures; and some witnesses have said if that was six times it would be all right; others have said that when we confine it to any number of times it will hurt and have a tendency to narrow trade; some, perhaps, have gone so far as to say that it would destroy the exchanges. What is your idea about whether or not it would destroy the exchange?

Mr. BARNES. I think it would make the process very cumbersome, and that instead of the present simplified matter, that you would undermine the usefulness in respect to this liquidity of trading. I do not believe that trading confined to the actual hedges will match enough times and in sufficient quantities to furnish this instant trading, which is the very life of narrow trade tolls between producer and consumer; it is the very life of it, Mr. Tincher.

Mr. TINCHER. It was the judgment of men familiar with the subject with whom I conversed during the summer that this limit of three times would probably take care of that situation, and then have the benefit of doing away with gambling. Do you know, Mr. Barnes, or what is your best judgment as to the number of times the actual product of wheat is traded in?

Mr. BARNES. I could not conceive where it might be traded in just as actual hedges above six or eight or ten times in the trade processes.

Mr. TINCHER. I did not know whether your work would give you any more information than any one else, but we have been unable to get any satisfactory estimate as to the number of times, counting the actual hedges and the speculative or gambling trading that it is traded in.

I was told when we started these hearings to assume it was traded in 14 times before the harvest and as much as 40 times after the harvest, and I have been trying to see if I can not get an explanation. One man, who ought to be the best of authority, Mr. Gates, of Chicago gave the figures that the calculations by which he arrives at his figures are not very definite or certain. He places it at 10 times. Some witnesses have placed the actual legitimate hedges at 10 times. Another man took me out in the other room after he had testified and said—"I do not want to be hard on the other witnesses—it would be to one hundred times." I do not know whether he was trying to make a monkey out of me or not. [Laughter.] But it does seem to me that we are unable to get any accurate information.

Mr. BARNES. That is quite possible, because there is not any prescribed method of hedging. I went back in the business September 1. One of the first things we bought was 250,000 bushels of red garlicky wheat in Baltimore—Maryland county—raised garlicky wheat. I have still got that wheat. At least five times in the three months which have elapsed I have made offerings of that Baltimore wheat, at least five times I have had cables from my foreign correspondent saying "We have an inquiry for garlicky wheat overnight. Buy and offer it at such and such a price," and the figure being one which I was willing to accept I have taken in my hedge at the close of the market one day, in order to cable abroad so that if they took it overnight I would be even on the market; and five times I have been disappointed and the next morning I put back the hedge, because I did not want the fluctuations. There are at least 10 trades right there against one cargo of unsalable wheat. How many times I may have to do that before I can get it placed with a foreign buyer, I do not know.

Mr. TINCHER. How many commission men have you that wheat ed with for sale?
Mr. BARNES. No one in this country. I do my own cabling.
Mr. TINCHER. I mean, how many brokers in foreign countries are ing to sell that wheat for you?
Mr. BARNES. But one; and he reaches many buyers, of course.
Mr. TINCHER. One of the arguments which has been used in favor the present market system is that the exchanges are eliminating tain things themselves: For instance, if the condition of the market the United States warranted you in believing it would be a good a to sell 50,000 bushels of wheat at Galveston for export, and prob- y it would have the same effect on any number of men of your nperament in Chicago, that they would each one wire four or five kers in Galveston to sell 50,000 bushels of wheat for export, and re would probably be several million bushels of wheat more than s contemplated sold for export being offered. It has been stated t they are eliminating that themselves. One exchange man told that. That, of course, would have a depressing effect upon the rket; it looked like a lot more wheat was being offered than was sale for export.
Mr. BARNES. I doubt if that would have any market effect, Mr. cher, really.
Mr. TINCHER. Do you not think that the news going out over the vate wires from the Chicago exchange that Armour is selling to-day many bushels has an effect on the market?
Mr. BARNES. Well, on account of Armour's resources and prestige, doubtedly there are some, assuming that information is correct, o would trail along.
Mr. WILSON. And would it not be equally true in respect to any er man concerning whom such information was being sent out?
Mr. TINCHER. I am not citing Mr. Armour——.
Mr. BARNES (interposing). Is not that a fair question? Yes, any n of prominence in the trade, answering Mr. Wilson's question.
Mr. TINCHER. I won't say just that message, but messages of that racter and nature do go out over the wires when they are not n reliable and not even facts which would cause a disturbance even the grain exchanges and the smaller exchanges as well as trade?
Mr. BARNES. Without question.
Mr. TINCHER. As a condition of exchange, if there is some way t could be eliminated, it should be remedied?
Mr. BARNES. That is one of the things which the exchange authori- s recognize and are eliminating, as they feel, by sound steps.
Mr. TINCHER. But that has been one of the real conditions?
Mr. BARNES. Yes.
Mr. TINCHER. I did not mention Armour in any disrespect, but name has been mentioned perhaps more times in regard to trad- in the wheat exchange than any other man in the United States. t is my information; I do not know whether it is true or not.
Under our present marketing system, the English merchants did ner the grain market in this country once, did they not?
Mr. BARNES. I would not call that a corner, no. They have bought y large quantities for delivery in Chicago in May. Of course, t was where they could buy the readiest. That was all changed actual wheat at relative differences.

Mr. TINCHER. And they are buying wheat, I want to show, as a government, or unit, for export; that is their method of buying wheat, is it not?

Mr. BARNES These are hold-over conditions of the war, when governments had to make purchases overseas, because merchants could not take the hazard.

Mr. TINCHER. So long as they continued that under the present market conditions in the United States, the foreign buyer coming here to buy wheat, can, without the producing public or the people who should know, knowing it first go on the market and sell wheat for the purposes of depressing the American market, can they not do that without their names being known or being given to the public?

Mr. BARNES. In our own markets?

Mr. TINCHER. Yes.

Mr. BARNES. They can, but they do not.

Mr. MCLAUGHLIN of Michigan. It was said they did; is that a false report?

Mr. TINCHER. I know the distinction Mr. Barnes is going to make, that the time they cornered the market they did not do it that way. I will say I had been advised they cornered it. I do not know. One of the witnesses representing one of the big exchanges testified they did corner the market once.

Mr. MCLAUGHLIN of Michigan. I may have misunderstood, but my impression is that these English agents intending to buy, first went in and sold large quantities.

Mr. BARNES. I understood the question to say they could do that. I say they could, but they do not.

Mr. MCLAUGHLIN of Michigan. We were told that they actually did it.

Mr. BARNES. Went and sold?

Mr. MCLAUGHLIN of Michigan. Yes.

Mr. BARNES. I have no hesitation in saying that must be absolutely false.

Mr. TINCHER. I want to get you gentlemen together here. Mr McLaughlin misunderstood. They did not go and sell; they went in and bought at the time they cornered the market. That is the statement of the other witness who testified.

Mr. MCLAUGHLIN of Michigan. I misunderstood then. I understood they were intending to buy either for actual use or for the purpose of cornering the market, and in order to get the price down they went in and did a lot of selling.

Mr. TINCHER. I am not much of a grain man, but I think the way they are charged with making that corner is this: They bought futures and then bought cash wheat to such an extent that they made their money in demanding delivery on the futures they bought when the man could not get the wheat. They had put the cash wheat up to such an extent that they took their profit.

Mr. BARNES. They were at war, and they had a certain amount of food to provide for their people and the allies. Their total purchases in this country were made for the purpose of supplying their people not beyond their needs. It was to be presumed that if they bought in the trade channels that they were to be delivered. It developed that there were oversales on the exchanges of actual wheat and these people had to replace that wheat in other markets

and other sources of supply; but there was no deliberate intention to bid the market up and profit by an advance.

Mr. TINCHER. They took a lot of money on cash settlements.

Mr. BARNES. If they did, they bought wheat in other countries.

Mr. TINCHER. For instance, they came here and they bought wheat futures, as I understand it. Then they went and bought the cash wheat. They kept the price of futures up and the cash wheat up, and then they demanded their wheat on the wheat futures, requiring a big cash settlement, which reduced the price of their cash wheat. In that way, it was stated by members of some of the exchanges, they effected a corner of the wheat market. Of course, the proposition is they were after the wheat and took the money they got in the United States and went some place else and bought wheat?

Mr. BARNES. Let us clear the record, because I think a gross injustice might be done these people, who, in all my contact with them, I have found to be uniformly fair. They had a certain amount of wheat to be supplied for England, France and Italy. That was calculated, I imagine, something like 6,000,000 or 8,000,000 bushels of wheat. People at war, with communications jeopardized by submarine warfare, who must supply their inhabitants, have some disadvantages in advance. They can only secure that supply by buying where it exists; it was most readily bought in America. With the best of intentions, they have a right to forecast their requirements six or eight or ten weeks, and coming into this market to supply the demand that they expect to ship from this market in various forms—cash wheat in various forms, anywhere they can make their purchases, knowing that cash was turned into wheat and delivered. That was the situation which developed, and because they were dealing in an overestimated crop in America, when it come to a point that the shortage of actual wheat developed they had to go into other countries—Argentina or Australia—on a price level elevated with ours, and sell out their surplus contracts in this country, or place them on the same price level elsewhere. There is no question of profit to those people, as it is unjust to talk about a wheat corner by which they profited.

Mr. VOIGT. The fact is they make the American people pay their differences in addition to the wheat which they took out of this country.

Mr. BARNES. All right. They invested those differences in higher-priced wheat in other countries, and we did not have any.

Mr. VOIGT. What they did would not be of interest to the people of this country.

Mr. BARNES. Who put up that difference? The short seller who sold wheat beyond what existed in this country, expecting that the price would decline.

Mr. TINCHER. The criticism of it did not come from this committee; it had come from some of the representatives of some of the exchanges and some of the commission men. However, every gentleman who has appeared before the committee has admitted, or stated, that under the existing market system they could, with their organized purchasing agency, go into the exchange and, without the public knowing their names, could sell wheat for the purpose of depressing the

market, as a part of their transactions in purchasing wheat for their clients, and could manipulate the market in that manner, being purchasers to the size they are.

Mr. BARNES. They could, but they do not. It is unethical, and those people would not do that sort of commercial transaction.

Mr. TINCHER. However, without discrediting any confidence any one has in the British representatives here or British merchants, it is not exactly a healthy condition to have our markets in that condition, is it?

Mr. BARNES. It is not; and as long ago as last November, Mr. Tincher, in consultation with the Market Committee of Seventeen, I said that that was not a healthy condition and that if it was to be a permanent condition, fair play to our producers required the national Government should set up an agency to counteract concentrated buying. But these people must be extended a great deal of consideration while they are getting out of a war disaster and while they are getting down from this trading. To-day a merchant can ship wheat into Great Britain and sell outside the Royal Commission: he can ship it in there and have a free market. It is their intention to cease operation by March, when their official agency will be retired altogether.

Mr. TINCHER. My bill limited the sales to three times. They could not corner the market if they were limited to three times, could they?

Mr. BARNES. Yes, but supposing they had no records.

Mr. TINCHER. I am not talking about the evils of this bill; I am trying to find some good for it.

Mr. BARNES. I want to try to make a practical suggestion. Suppose that because we had no crop surplus in this country the British merchants had never been in this country for a year buying, and the next year we raised an enormous surplus and wanted them here. How much could they buy in advance purchases?

Mr. TINCHER. Three times what they actually contemplated buying of actual whaet.

Mr. BARNES. What is the record of actual wheat? When is it made, after their purchase or before?

Mr. TINCHER. They would have to make a showing at the right time to avoid the tax of 1 per cent that they had actually purchased one-third as much wheat as they did deal in options.

Mr. BARNES. That would be so cumbersome and such a deterrent entering our market that it might turn the current of foreign demand, as there is always competition between this source of supply and other sources.

Mr. TINCHER. If there was a competitor, it might turn the English buyer to that competitor. That would be an argument against any regulation whatever for our own protection. But with regulations, tariffs and other measures to prevent evils in respect of other commodities, since we still have the trade in them, I thought that three times—letting them deal in three times the quantity, would probably not discourage them from coming here to buy wheat. I do not think this year, Mr. Barnes—and I may be wrong entirely in this, because Members of Congress sit here at this table about 300 days in a year—but I do not think they purchased any futures. I think the wheat purchased for export was purchased in actual wheat; is not that true

Mr. BARNES. I think that is true.

Mr. TINCHER. So my bill would not have bothered them in their transactions this year?

Mr. BARNES. But, indirectly it would, inasmuch as you put the limit on the buyer, who must provide in advance by buying on the exchanges.

Mr. TINCHER. I thought there was a reasonable limit, to give him the opportunity of buying three times.

Mr. BARNES. The practical result of that would be that men of very large resources and no particular business ethics about it, would deliberately turn away cash grain to a large quantity in order to build up a record, which they could use this three-times limit next year. You would dislocate the natural trade processes altogether by putting a premium on the man who wants to profit later by manipulation or by unscrupulous dealing. That is my objection to that bill.

Mr. TINCHER. It would be remarkable if I could prepare and introduce a bill here, with the little help that has been available, that would not have the lot of objections to it.

Mr. BARNES. I have great consideration for that and I recognize there are some defects and abuses, and I think you magnify them.

Mr. TINCHER. I do not hardly see how a man could magnify the evils of a system that the best authority in the trade admits that under present conditions a foreign country could, under that system, come here and absolutely corner the market and control it and dictate it. It may be that I exaggerate the evils of the present market system, but it does not seem to me like it is conceivable to exaggerate that evil.

Mr. BARNES. My honest opinion about it is that you do.

Mr. MCLAUGHLIN of Michigan. Right in connection with this matter Mr. Tincher was speaking of, permitting the buying and selling of three times the amount of the actual transaction, that would necessitate the keeping of records, would it not, to show how many times each person bought and sold, and the purpose for which he bought and sold? Are any such records kept on the exchanges now?

Mr. BARNES. The records could be set up. My opinion, again, is that it would be a cumbersome, complicated system, which would tend to break down the very simplicity of this, and would necessarily narrow the circle of traders in their exchanges which make the market liquid.

Mr. MCLAUGHLIN of Michigan. Some of these gentlemen tell us that one who is dealing on the board of trade does not disclose and is not permitted to disclose the name of the person whom he represents; is that the custom of the exchanges?

Mr. BARNES. Yes.

Mr. MCLAUGHLIN of Michigan. Do you not think it would be helpful or proper to require him to disclose the name and the purpose for which the man is buying and selling?

Mr. BARNES. No, I do not.

Mr. MCLAUGHLIN of Michigan. And if you did, would it not be necessary for you or somebody in making a record to analyze the man's mind and determine whether he intends to accept or deliver the actual wheat, or whether he is only speculating? It would be pretty nearly necessary to analyze his mind and to know what his intentions are, would it not?

Mr. BARNES. It is quite true, and I say I have another objection: it tends to put a premium on the crook, a man who is willing to misrepresent, and that is bad in any business.

Mr. TINCHER. Mr. Barnes, do I understand that you think it would involve the keeping of too many records?

Mr. BARNES. It would complicate it, yes.

Mr. TINCHER. I am willing for you to criticise my bill because of your ability, but you are the last man on earth I want ever to complain about keeping records. [Laughter.] If anybody can require as many records as you have, let him come forward.

Mr. BARNES. Mr. Tincher, that is a fair shot, but I will come back that we were at war.

Mr. HULINGS. I want to get Mr. Barnes's idea on one thing: Do you know about these bucket shops? They have been abolished, I think, where a broker sets up a little affair and folks all get around and bet on the market, and he "buckets" every order. If you want to sell, he will buy it from you; and if you want to buy, he will sell it to you, taking down his commission each time—"buckets" the order, in other words. Do you think that performs any valuable function in trade?

Mr. BARNES. No.

Mr. HULINGS. What is the difference between that broker taking that order from you and wiring it in to another broker in Chicago to do just practically the same thing?

Mr. BARNES. It is not practically the same thing, because there is a real trade.

Mr. HULINGS. Oh, but there is a real trade made there; this broker here buys your wheat—the bucket shop man buys it; he settles with you for it. Is there anything more than just getting two commissions out of that fellow who wants to gamble by sending his orders to the exchange, and does it perform any more valuable function in trade than the fellow who just merely buckets it?

Mr. BARNES. The trade do presuppose the bucket-shop order never would reach the exchange; it is just a bet between the two individuals. The order is wired to these exchanges.

Mr. HULINGS. And takes in another fellow who bets?

Mr. BARNES. No, pardon me. He has a larger proportion of business than meets the actual hedger at that center.

Mr. HULINGS. There are about 800,000,000 bushels of wheat produced. There is evidence here that there has been anywhere from 14 to 40 times that much wheat handled on the exchanges. What proportion of those sales do you think comes over from these wire houses?

Mr. BARNES. I have not any idea, nor do I believe it essential to know what proportion comes over the wires, in the economic operation of that exchange.

Mr. HULINGS. You think, then, there is a real valuable function in trade in having neighbors sit around the blackboard and gamble on the market?

Mr. BARNES. That is not a fair question—no.

Mr. HULINGS. That is what they do. They do not expect to sell anything or buy anything or deliver anything.

Mr. BARNES. I am not going to defend the individual who, as you say, sits and looks at the blackboard and merely bets.

Mr. HULINGS. I was trying to get from you the proportion of all the transactions on the exchanges that come from just those sources.

Mr. BARNES. I should say, relatively, inconsequential. I really think that.

Mr. HULINGS. On the contrary, I would think it is a very large proportion. But I have not been able to get from any person any idea of what the proportion is.

Mr. MCLAUGHLIN of Michigan. Before the gentlemen on the other side of the table take up the question, I would like to ask you a question or two: Do you say the storing capacity of this country now is sufficient; that there is storage capacity available to every producer of wheat? Well, now, that can hardly be true at his point; though some one else may have capacity that would be available to him. Would it be necessary to have a law compelling a man who has storage capacity to make it available to the man who wishes to use it?

Mr. BARNES. Your point is quite right, and I tried to develop it there; that if you are going to give the farmer his storage facilities at his country point you must give the elevator operator the right to ship that grain along to the terminals where there is surplus storage.

Mr. MCLAUGHLIN of Michigan. When he wishes to ship it on, the one he gets in touch with, who has the capacity, may not be willing to let him use it. Should there be a law requiring him to do it?

Mr. BARNES. It is unnecessary. These public terminal elevators are open to anybody to a sufficient extent so that no further laws are needed.

Mr. MCLAUGHLIN of Michigan. Do you think that would always be available to one who wishes to store wheat?

Mr. BARNES. Oh, I think so.

Mr. MCLAUGHLIN of Michigan. And other kinds of grain?

Mr. BARNES. I think so.

Mr. MCLAUGHLIN of Michigan. Then, another matter: You spoke about the opportunities to one who wished to hold wheat to borrow money on his storage receipts. Do you think the Government should, in some way, supply the money or furnish the facilities or require somebody to loan the money?

Mr. BARNES. No.

Mr. MCLAUGHLIN of Michigan. How would that be reached, then?

Mr. BARNES. As soon as the elevator ticket, the evidence of this wheat, grade, quality, and quantity is properly secured so that it is a negotiable document, there will be plenty of lenders to him in private trade. They will be in competition to lend to him. As it stands now, the farmer with grain on his farm, can only supply his financial needs by going to the local banker who knows his financial character and who knows his resources. Therefore, he has no freedom of a selective borrower, and he has no freedom of selection of the buyer of his product. But you put into his hands a negotiable instrument so well protected that it would be accepted by anyone as security, and you widen his opportunity to find competitots for his loans, too. Is not that the way the business is done now?

Mr. BARNES. Yes, except in the case of the farmer.

Mr. MCLAUGHLIN of Michigan. Anyone who has that receipt with the wheat back of it is in the position of everybody else, and he takes that to a bank. Can he not get a loan on it?

Mr. BARNES. Yes. But the individual farmer is not in position to turn his wheat into the kind of warehouse certificates which it is customary to use to-day. I am trying to set up a plan by which he can get, in the little country elevator, his warehouse ticket so adequately secured and protected that it will be collateral for him to go to the local bank or a bank who knows nothing of him, and sell it.

Mr. JACOWAY. Under the law is not that warehouse receipt suggested by Mr. McLaughlin prime commercial paper?

Mr. BARNES. Yes, but only at the terminal elevator.

Mr. JACOWAY. Then it is only prime commercial paper for the terminal warehouse?

Mr. BARNES. Yes.

Mr. JACOWAY. That is not true of cotton, is it?

Mr. BARNES. I do not know about cotton.

Mr. JACOWAY. If a farmer got the receipt for it in the local elevator, what laws or banking machinery should be set up under which he can use that receipt in getting money?

Mr. BARNES. In the first place, in large areas of our country, he can not get any such storage receipt. The local elevator operator says, "You sell your wheat to me at $1.76, or haul it back to your farm;" and that is not fair to the farmer.

Mr. JACOWAY. What would you have the farmers do?

Mr. BARNES. I would make it, preferably by voluntary arrangement, with these elevator operators themselves, to give that farmer the right to sell his wheat, and sell if he likes the price, or take a storage ticket. I would make that storage ticket so adequately secured that, having received it, he can go to a local bank or send it to Chicago or New York and borrow against it.

Mr. JACOWAY. The first condition that must exist is a willingness of that local elevator man either to buy or to take the wheat?

Mr. BARNES. That is right.

Mr. JACOWAY. Suppose he does not wish to take the wheat or to buy it. Can you compel him to do it?

Mr. BARNES. Yes.

Mr. JACOWAY. Have a law compelling him to do it?

Mr. BARNES. Yes.

Mr. JACOWAY. A Federal law?

Mr. BARNES. No; I think that is a matter preferably for State regulation, but they should be uniform practices.

Mr. JACOWAY. And if he does take it in the local elevator and get a receipt for it, is that now the basis for operations in the Federal banks that that kind of loan will be accepted as security for rediscount or whatever you call it?

Mr. BARNES. Since that warehouse receipt is hedged with certain safeguards, he need not worry whether it is acceptable to the Federal reserve bank, as I think it would be, or whether it depends on the bankers. It is of such a nature that there would be plenty of competition to loan him money on it.

Mr. JACOWAY. When the Federal reserve law was passed first, that was not one of the kind of loans that could be rediscounted, was it? It had to be in the nature of an actual transaction, representing an actual purchase and sale?

Mr. BARNES. Yes.

Mr. JACOWAY. Making it an asset currency instead of a commodity currency?

Mr. BARNES. Yes.

Mr. JACOWAY. But the act has been changed to some extent, so as to provide for the issuance of commodity currency?

Mr. BARNES. Yes. I do not see but what that same system could not be made to work in the cotton country.

Mr. JACOWAY. I think it can be.

Mr. MCLAUGHLIN of Michigan. Then the first legislation that would be to compel the local elevator to give storage to the farmer's wheat; and you say that should be a safe law?

Mr. BARNES. I resort to law only as a last resort. I believe by creating a commission such as I have suggested it could by voluntary agreement with these country dealers generally set up a farm of warehouse receipts, a form of bond protection, a form of contract and charges, which would induce them to give this privilege gratis without being forced.

Mr. MCLAUGHLIN of Michigan. If there were this marketing commission you speak of, you think it could bring influence to bear on the local elevator man to persuade him to accept the farmer's wheat and issue a certificate without the power in that commission to compel him to do it?

Mr. BARNES. I am just sanguine enough to think that they could do it, but I recognize the possibility that they might find so many obdurate buyers who want to buy at any price that they might have to resort to legislation.

Mr. MCLAUGHLIN of Michigan. You are suggesting a Federal marketing commission?

Mr. BARNES. Yes.

Hr. MCLAUGHLIN of Michigan. But the necessity of a State law, because the Federal law would hardly operate in that local community, would it? It would not be a national law that the commission could invoke against that local elevator man, could there?

Mr. BARNES. Of course, there would be the usual dispute as to whether the trade was interstate in character and subject to Federal legislation, or intrastate and only subject to State legislation. But, again, my idea of a marketing commission is that they will find the harmony between those two positions.

Mr. MCLAUGHLIN of Michigan. I can see the value of such a commission, but I was trying to be a little practical and just see how it would function.

Mr. BARNES. In my own mind, it takes the shape that they would try this first by agreement, by making such a demonstration as to the usefulness and practicability of certain changes that they would be adopted generally, always with the potential power to recommend legislation in case it was needed.

Mr. MCLAUGHLIN of Michigan. But that marketing commission would have to be a pretty big proposition to deal with affairs and transactions at each individual elevator all over the country—that would be a pretty big proposition, would it not?

Mr. BARNES. It would, if they tried to do it. But if they laid down a code of practices, a formula for operation, and asked the State authorities in each State to set up a form of agreement with the elevator operators by which there were certain obligations undertaken on

each side, I do not believe that is an impracticable dream without regulation. I have in mind the ease with which the Grain Corporation executed 45,000 trade contracts after discussion with the trade, and attempting to provide a consideration for every assurance which they asked in return from the trades, and I believe it can be done in this other operation as well without writing it into a rigid regulation which is so inflexible that it does not meet conditions.

Mr. McLAUGHLIN of Michigan. Would it be proper for me to ask if you advise that the Grain Corporation, or something like it, that functioned during the war, be made permanent?

Mr. BARNES. No.

Mr. McLAUGHLIN of Michigan. It would not be proper for me to ask that?

Mr. BARNES. It would be proper for you to ask that, but my opinion is, no; it should not be made permanent.

Mr. TINCHER. Mr. Barnes, I have given some thought to the storage proposition you have mentioned, and introduced H. R. 1384, April 28. I want you to take that with you. I suppose you will be revising your remarks, and in the extension of your remarks I want you to criticize that; and if it is subject to any criticism, I would like the benefit of your criticism.

Mr. McLAUGHLIN of Michigan. There is another question I would like to ask: It appears that these cooperative elevator companies in some way or other have tried to secure membership on the boards of trade, and for some reason have been refused. A bill is pending to compel the boards of trade to accept such membership. I wish you would tell us that whole situation and what you think of it.

Mr. BARNES. Of course, my measure of Government regulation, Mr. McLaughlin, is to test its justification, as to whether it is necessary to secure fair play to any individual; that the freedom of opportunity of an individual to create his own niche in the social structure by his own ability and efforts is the prime consideration of sound social structure, and the Government has no right to step in, in any form, except when that individual is not getting fair play.

The cooperative movement starts with the assumption that they are not getting fair play in these terminal markets.

The door is open for them to set up their own marketing machinery and market their own product along side of those exchanges, under free business in this country. Those exchanges perform a great service and have developed a great service because they have exercised certain supervision over the character and the practices of their members, and they have a perfect right to protect themselves against the breaking down of that character of service to their members.

I can not attest that the cooperative movement is unfairly excluded from those exchanges, because those exchanges have created their own function, and it belongs to them. I can not see where they are invested with such a major public interest as justifies that kind of interference with their governing rules. For myself, if there was a monopoly in them, which it was not possible to meet in any other way, I can see an excuse for Government interference with their rules, but that does not exist, in my judgment, to-day.

Mr. McLAUGHLIN of Michigan. I understand there is a rule of the exchange that permits the splitting of commissions, and one of the reasons given for refusing permission a cooperative association to

buy a membership on the exchange is that of the division of their profits and the manner they have of paying dividends, amount to a splitting of commissions. Therefore, an admission of the representative of the cooperative exchange would be a violation of that rule of the exchange. Do you think that that amounts to a splitting of commissions to such an extent and manner as would properly justify the invoking of that rule of the exchange against the admission of the representative of the cooperative exchange?

Mr. BARNES. There is no question in the practical working which would be in effect that the particular grain seller would get his grain handled after the commission rate fixed as fair by the exchanges. The general question is broader, as to whether the exchanges have the right to control the practices of their members, and that seems to be sustained by various decisions. But on the broader question of again testing whether the exchanges controlling the practices and defining the commission rates have established a monopoly. I apply that test and I can not see that they have a monopoly. If their exchange rate is fixed unduly high, the door is open for the establishment of rival exchanges alongside of them for a lesser sum, and unless you feel that they are thereby a measure of monopoly that does invest it with a public interest, you should not break down the practices by requiring a deviation from their rules.

Mr. MCLAUGHLIN of Michigan. I may not be able to ask my question just as I should, from my limited knowledge of it, and that is quite a limitation. But the method by which a cooperative exchange distributes advantages and carries on its business, makes returns to its several members—is that really splitting commissions?

Mr. BARNES. If they make the returns on the basis of the commodity handled rather than capital investment, of course, it must be, in its actual operation, a splitting of commissions, because the dividend back to them is based on the bushels contributed and not on the capital invested.

Mr. MCLAUGHLIN of Michigan. They treat them all alike. Each farmer who is back of the affair, or who is a member of the cooperative exchange, gets his share in proportion to the goods he furuishes?

Mr. BARNES. Yes, therefore his returns of earnings is a reduction in the selling cost per bushel, not a return of earnings per dollar invested, as the oridnary capital investment in this country earns. So that it is in effect a return of a percentage of that commission per bushel.

Mr. MCLAUGHLIN of Michigan. But if a representative of one of these cooperative exchanges were admitted to membership in a grain exchange, for instance, at Minneapolis, that representative would act for his people behind him and as a whole. He would not be doing a business for outsiders, and the business would not be general. He would himself act for those people alone, as a whole, would he not?

Mr. BARNES. Let us take the farmer at a country station, who gives part of his grain to the cooperative society and part he ships direct to a commission merchant. The commission merchant is required by the rules of the exchange, of which he is a member, to assess 1½ cents a bushel for the selling of it. The cooperative society assesses 1½ cents a bushel, and at the end of the year distributes back a half cent a bushel on the grain he handles. He has no capital

risk to make that earning; it is a pure return to him of contribution per bushel of the business handled, and in effect it breaks down the commission rates.

If the exchanges have a right to control the facts of any of their members, they have a right to control against breaking down the uniform rate prescribed by the exchange government.

Mr. McLAUGHLIN of Michigan. Then the trouble would be not in the operations of the cooperative association, but in the methods of business of some of the men who compose it. If every farmer who is a part of this cooperative exchange were to market his entire product through the association, then the fault you speak of would not appear so bad as if he let the association handle part of his grain and the local dealer handle the other part of it, and that local dealer would come up to the exchange to do his business—if all the members dealt entirely through their local exchange, then a part of the trouble would be eliminated, would it not?

Mr. BARNES. No, it would then be just a difference of comparison between the farmer who shipped his grain from the local cooperative exchange if the farmer alongside of him who used the commission contract. In one case, the farmer is getting his grain service at the terminal for less money than the other. The exchanges have no quarrel with that farmer who wants to invest his capital at the terminal. He can get his membership if he distributes his earnings in relation to the capital risk.

Mr. McLAUGHLIN of Michigan. The one farmer is a member and deals altogether with the cooperative exchange; the other farmer deals through the exchanges. If the representative of that cooperative association were permitted a seat on the exchange, would he have some advantage over the outsiders in some way—in any way excepting returning to his people a part of the cost?

Mr. BARNES. Yes. He would have this advantage, that he could go to his clients and say, if you will ship your grain to me I will charge you your 1½ cents, but you stand a chance at the end of the year that you will get back one-quarter or one-half cent of earnings. Therefore, that is an unfair trade inducement as against the man who has to pay 1½ cents at the terminal, because that is a fair rate and provided on the exchange.

Mr. McLAUGHLIN of Michigan. If he had a membership on the exchange, he would get all the benefits and advantages of the exchange without doing him any good, and perhaps working against the rest of the members of the exchange?

Mr. BARNES. That is the objection to it; it is unfair competition in the soliciting of business.

Mr. JACOWAY. Are you familiar with the Lever warehouse act and its provisions?

Mr. BARNES. No; I do not believe I can say that I am.

Mr. JACOWAY. Have you studied the cotton situation at all like you have the grain situation?

Mr. BARNES. No. Let me say as to cotton, the only study of the cotton situation was a discussion I had with a New York gentleman a few days ago, in which I simply asked him, knowing his familiarity with the conditions in the cotton districts—with which I was not familiar—whether this form of making some kind of a

negotiable instrument available to the grower, by some method warehouse receipts ——.

Mr. JACOWAY. That is contemplated in the warehouse?

Mr. BARNES. It is.

Mr. JACOWAY. But, I will ask you further, are you familiar with the law of Minnesota which provides for Minnesota the very machinery which you want to set up for the Federal Government about warehouse receipts on grain?

Mr. BARNES. No, I am not, except that I know the practice in the Northwest States is largely along this line, except that these elevator tickets should be more adequately secured to make them prime collateral.

Mr. JACOWAY. Coming down to the practical features of your question—and I agree thoroughly with you—what per cent would you loan on grain stored where you take out a warehouse receipt?

Mr. BARNES. If I was loaning to merchants from whom you could get an adjustment of collateral equity every day, I would do as the banks now do, loan 80 per cent. If I was dealing with a farmer whom I knew could not readjust the collateral to meet value in collateral market, I would want an extra 10 per cent margin. Probably a farmer could borrow against that kind of a prime negotiable certificate somewhere in the neighborhood of 60 or 70 per cent of its market value.

Mr. JACOWAY. I was talking to a spinner of New England, and he said this: "If I want to buy 5,000 bales of middling cotton, the grade of cotton that is used for my mill, I have to go through the cotton of 200 or 300 people in order to get that specific grade of cotton." Now, in the South there are many thousands of places that you can buy middling in the 800 cotton growing counties of the south. He suggested this: That if there were a general warehouse, which is analogous to the clearing houses of the banks, where a report could be made each day of the specific grade of cotton that was on hand there, and in return, we will say, telegraph to some central agency, then that would cut out a horde of unnecessary middlemen. As I understand you, that is the end you would like to reach in the grain proposition; is that correct?

Mr. BARNES. Yes.

Mr. JACOWAY. Then, in a word, what would be the economic value as you see it, of establishing this system that you have been describing this morning?

Mr. BARNES. I can see, of course, so great an economic value——

Mr. JACOWAY (interposing). I want to get your full idea.

Mr. BARNES. It goes back to the basic idea that it gives the grower his chance to get a freedom of market judgment as to when he is going to sell and the price he takes, because there is the revolt of human nature being forced in his dealing.

Mr. JACOWAY. It puts him on an equality, does it not?

Mr. BARNES. Yes. Your statement about wanting middling cotton and having to go among so many middlemen seems almost inconceivable, that seems almost preposterous. It may be true.

Mr. JACOWAY. You can get but a few bales out of a thousand, and you have to go here and yonder in order to get the cotton that your mill will manufacture into the finished product that you desire to make.

Mr. BARNES. I feel a great disadvantage, because that is a matter peculiar to that business; it is not true in grain. There is not any such economy to be reached with the farmer dealing in grain.

Mr. JACOWAY. What other economic benefits are there?

Mr. BARNES. I want to give you all the time you or any other members of the committee desire in discussing this and everything else, but I would like to start back at 2 o'clock.

Mr. JACOWAY. I do not know where there is a better man to put this question to. What is your idea of the general marketing system of the country? Can it be corrected? Is it as nearly perfect as you can get it, and, if not, what suggestion would you make relative to the general marketing system in the United States?

Mr. BARNES. I think our marketing system, generally, especially of those commodities which are traded in on the exchange, which is typically American, is to-day the best in the world, but it is not perfect. I believe there can be improvements and perfections made. I believe those have to be proceeded with very carefully, after investigation of very able and experienced men, not sitting around the table in this way and writing it into a regulation. Therefore, I do earnestly urge the setting up in some way of this commission, which can be adequately manned, to investigate these questions, than which no greater question is before us than the matter of marketing conditions.

Mr. RIDDICK. Mr. Barnes, the district I represent is largely a farming district. At the last election there were about 40,000 Nonpartisan League votes cast. The question I want to ask you is this: That vote in a way reflected the question that is disturbing the farmers. The farmers feel they have some cause for grievance against the grain-buying interests. The farmers ask if the price of grain should not be based on two factors chiefly, first, the actual cost or average cost of production, and second, the value of their grain as a food product. They believe the grain exchanges come in and artificially lower the prices at the time they have their goods to offer, and that after the goods are largely out of their hands, then the grain comes back to its actual value as a food requisite.

I notice in your Table C, for the years 1914 and 1917 and on after that it seems to bear out their contentions that the price of wheat—average farm price—for 1914 and 1915 crop year, during September, October, and November, when the farmer has his wheat to sell, is 93, 95 and 97 and a fraction cents; and then three months later it runs up 35 cents higher, indicating that it has an actual value from the consumers point of view of 35 cents higher than was received. He thinks that a commodity so stable as wheat, where the fixed carrying charges and storage charges are known, and they are small, should not fluctuate to that extent. Are there artificial factors entering into those prices?

Mr. BARNES. Taking the particular instance you gave in 1914–15, the war broke out the 1st of August, 1914, the price of wheat shows in that table the hesitation and doubt as to what effect the war was going to have on values generally, and then by December, it began to clear up that the war meant inflation, as it always does, and the advance in price. That was a war condition which should not be assumed as a typical year, because that is why I combine these

seven years as a whole, and the showing in seven years shows no policy of a merchant which pursued that business for a living ——

Mr. JACOWAY (interposing). Would not the warehouse receipt in a measure obviate the very things that the gentleman's constituents complained of; would it not enable him to keep his product when there was a glut and get some ready money and hold it for the rise in price?

Mr. BARNES. Yes; it would at least give him the feeling of independence in selecting a time to market, would it not? I think that is very important. Six million farmers are rebelling against the thought that they have no word to say as to the time they have to sell grain.

Mr. RIDDICK. The farmers believe that a great many people operating on the boards of trade, who neither raise wheat or handle wheat, but who make large profits. That, of course, is true, is it not?

Mr. BARNES. This showing would not indicate it, would it? And the showing of Table A, on which the merchant who bought the farmers' deliveries last fall has 200,000,000 loss on the market price to-day, does not indicate he was making very much, does it?

Mr. RIDDICK. As a matter of fact, these men are continuing in business and putting up office buildings and residences and using the kind of cars that indicate they are making money.

Mr. BARNES. There is a constant sifting out of men who have failed, and dropped out. You can make a list without any difficulty of firms who have dropped out.

Mr. RIDDICK. For example, every once in a while somebody attempts to corner the market?

Mr. BARNES. Yes.

Mr. RIDDICK. Are those attempts made?

Mr. BARNES. Yes; and they lose in the long run.

Mr. RIDDICK. They are made presumably by men who are familiar with the marketing conditions?

Mr. BARNES. No; and they emphasize a spectacular game and say nothing about the losses which these same men are undergoing.

Mr. RIDDICK. In other words, the thought of the farmers is this: These men try to corner the market in a large way, but every day they are trying to make little gains in the same market, and every now and then they are trying to make a big gain.

Mr. BARNES. But you can not argue against trading on the exchanges except that you get a great insurance under margins. That is my declaration for the speculation of the minor traders who furnish rapidity of operation; that is the very life of the markets.

Mr. RIDDICK. There was a very illuminating statement in the papers in October, I believe, that some clerk made an error in recording a sale—you probably read it—where he should have put down a thousand bushels he put down a million bushels. A great break occurred in the wheat price, and that was the explanation.

Mr. BARNES. At times a spectacular story appeals to our gentlemen of the press very forcibly. But the fact is, it is probably one-tenth truth and nine-tenths press value.

Mr. RIDDICK. Is it true or is it not true that the men who handle the speculative end of the grain, buying and selling, do attempt to manipulate the prices in some degree to make profits for themselves?

Mr. BARNES. I must admit that they do, yet, though far fewer than thought it proper business ethics 10 or 20 years ago. But more

and more, as I have said here, men are coming to see that that kind of advantage by sheer weight of power, even though temporary, does hurt somebody somewhere, and they do not want to make money that way. That is not theoretical dreaming; that is true. There is a distinct improvement in business ethics.

Mr. JACOWAY. Mr. Barnes, right there, just one other question I want to ask you: Are you familiar with the Fruit Growers' Association of California?

Mr. BARNES. No; I am not.

Mr. JACOWAY. Do you know how they market their stuff?

Mr. BARNES. I could not say I am familiar with it; no.

Mr. RIDDICK. Another question. I would like to have your judgment on: Various statements have been made around this table by witnesses and others that the total amount of bushels of grain handled in hedging and otherwise was many times the actual number of bushels handled in any season. Every time a bushel of grain is rehandled it adds on cost some place, does it not?

Mr. BARNES. Possibly so; possibly not. Here is my picture of the great grain supply of this country moving to a foreign or domestic destination. There is a constant seeking of some economy in transportation in some form along that line; some economy of handling methods which cuts out a charge that the other fellow pays; necessarily that seeking for economic routes must a great part of the time lead outside of these great central markets. That grain does not appear in those markets, although the hedge is carried there—the insurance service is carried there. It goes through other routes, because other routes are more economical.

Outside of the fact that a certain number of handlers have by elimination proved to be the most economic in their particular functions along that line who have gotten part of it, necessarily setting up three or four or five classes of handlers, if they could be displaced by one man making an economy of handling, they would have been gone long ago, because his competition is so free and easy because of his ready credit. The fact that because grain goes through four or five hands seeking a final market is no sign that it is burdened with unnecessary trade expense.

Mr. RIDDICK. I would like to get in the record your judgment, if you have an opinion, what the actual toll per bushel is for this machinery?

Mr. BARNES. It would be the wildest, wildest guess. If you can assume this form of service and this table carried in the form of hedges, and that the hedger was the insurer, and took these profits, he has received a return totally inadequate to the service he has rendered. I do not know any other way you can get down beyond the individual fluctuations.

Mr. RIDDICK. The matter I would like to get in the record is whether this machinery is economic machinery?

Mr. BARNES. It is the greatest economy in the world, and if we could extend it to other commodities we would be conferring a blessing upon the business, and the consumer. I want this marketing commission to see if I am not right in saying that this could be extended.

Mr. RIDDICK. I would like to get your opinion as to what it costs per bushel. The reason I ask that question is that I heard this statement made, Mr. Barnes, that if it were true that every actual bushel of wheat is handled a hundred times it adds an expense of one-fourth of a cent and that would mean the total cost of this machinery would be 25 cents for every actual bushel handled, which, of course, is an absurd statement.

Mr. BARNES. Yes, that would presuppose that every hedge carried its own profits and carried its own tolls, where, as a matter of fact, it is changed from one pocket to another.

Mr. RIDDICK. Are you able to give a statement as to the actual cost?

Mr. BARNES. I do not think I should venture a guess, because I do not know of any data to base a guess on. I really do not. I would like to help you get an idea.

Mr. RIDDICK. When exporters are buying wheat to ship to England, when the weight of that power is put in one hand—in the hands of the British commission—does not that reduce the price of wheat to England?

Mr. BARNES. It is a natural and sound conclusion, from the operation of the natural economic law, that that would put the buyer in a more favorable condition to dictate his price.

Mr. RIDDICK. Following that same economic idea, the farmer feels that the grain exchanges organized have an advantage over him, he being unorganized.

Mr. BARNES. And that is why I made these tables, to counteract that opinion. There is no power of anticipation in the grain trade. I have looked for these men of sound vision for coming of commercial fluctuations, and I have not been able to find them. I would like to get next to them.

Mr. RIDDICK. You think the Tincher bill would make it more possible to manipulate the market than it is now?

Mr. BARNES. I really think it would; and it would certainly be a disservice in discouraging some of the absorption buying which we need at the time of crop depression.

Mr. JACOWAY. Just one more question: Your idea is this, if I can get it in a word, to establish some clearing house where the buyer and seller can meet, and when you have done that you have cut out unnecessary middlemen, which will in inure to the advantage of the producers?

Mr. BARNES. It will simplify the process.

Mr. VOIGT. You propose that the country elevator shall issue tickets to the farmer so that he may readily dispose of his product. Before such a ticket could be issued the grade of the grain would have to be agreed upon. What would you do in the case where the farmer and the country elevator man were unable to agree on the grade?

Mr. BARNES. You are perfectly right in pointing that out, and I propose to meet that in my statement by setting up a tribunal, preferably as a local body, and when they did not agree they could appeal to a state commission and their judgment would be final.

Mr. VOIGT. Until that tribunal fixes the grade on that particular grain, it would have to be kept in a separate bin?

Mr. BARNES. No. The point would be that the grain would be entitled to either a price based on the grade if he determined to sell or to have a storage ticket, the grade of which would be left in abeyance until decision on the sample. But he ultimately would put that grain in the elevator, because, after all, his sole interest is to protect the storage ticket on the grain finally issued.

Mr. VOIGT. And suppose the farmer decides to hold the grain for a rise in the market, and he is willing to accept this ticket. Until that grade is established no grade could be issued?

Mr. BARNES. No.

Mr. VOIGT. That is true?

Mr. BARNES. Yes.

Mr. VOIGT. Could that man's wheat be actually mixed with other wheat until the grade is determined?

Mr. BARNES. Yes, mixed right off, because he is going to get a ticket reading what this impartial tribunal says it is, and all the elevator man has to do is to see that in the final analysis he furnishes that grain for redelivery. He may have shipped that to the terminal weeks before he is called upon to deliver, and at that time he will have to pay the price.

Mr. VOIGT. And you contemplate that this elevator ticket will later on be exchanged for a terminal ticket?

Mr. BARNES. The elevator ticket could give the elevator operator the right, in case of necessity, to deliver that amount of wheat in that grade in the terminal instead of in that country elevator and collect the freight.

Mr. VOIGT. The farmer's ticket would then be turned into the terminal elevator receipt?

Mr. BARNES. It is a potential terminal elevator receipt with that right in it, and he can not expand the storage capacity of the country elevator without giving the right to do that as his elevator fills up.

Mr. VOIGT. Necessarily, he would have to have the right to ship it on to the terminal?

Mr. BARNES. And having the right to ship it on to the terminal to deliver it there, otherwise you can not ask him to pay freight into the terminal and ship it back, could you?

Mr. VOIGT. It would have to remain at the terminal, if you would have a right to take it through this public terminal warehouse?

Mr. BARNES. There would be a local buyer—the druggist or country grocer—who would begin to buy those tickets when he felt that John Jones wanted to sell at the price; and having bought several, he would collect them together, he would go to the elevator operator, and say, "I would like to have this wheat in terminal elevator certificates instead. I know you have shipped it on." And he would get it by voluntary negotiation.

Mr. VOIGT. And that would be used as collateral security to get a loan on?

Mr. BARNES. Yes.

Mr. VOIGT. A man prominent in the grain trade suggested this idea to me, and I want to see what you think about it: That in order to prevent manipulation on the market a law be passed preventing any individual interest from having outstanding at any one time a speculative interest exceeding, say, 1,000,000 bushels of grain. What do you think of that?

Mr. BARNES. I have the same objection to that as I have to any other fixed determination of a quantity. It might work all right. It seems to me that it is aimed to prevent the overpowering concentration of trading on the part of any single interest, and that it merely transfers to that interest the necessity of being a crook as well as a manipulator; and that he will do it. He will furnish names enough, even a million, for each name to accomplish his desires, and you simply put a premium on the crook as against the honest man.

Mr. VOIGT. You take the men of large means in this country who could manipulate the market. You would not ordinarily class them as crooks, would you?

Mr. BARNES. No; and I do not want to see built up into your markets a class of men who can be classed as "crooks," because they are not there now.

Mr. VOIGT. You assume if a law was passed confining them to speculative interests of a certain amount at any one time these large men would violate that law?

Mr. BARNES. Not these large men They might attract some one at present unknown, who has no scruples and no standards, and he will do it, if you do not close the door to what he can do by that system.

Mr. VOIGT. I have seen statements made that the surplus of wheat, for instance, which is exportable regulating the price for the whole product? Do you agree with that?

Mr. BARNES. I think, broadly speaking, that is true; it is the pressure of that surplus in all the markets which breaks down the domestic consumption until that surplus finds its outlet abroad. Yes: in that event it regulates the price.

Mr. VOIGT. Let us assume a condition where this country would grow just about sufficient wheat for its own consumption, and there is no surplus of wheat to speak of. What would then regulate the price?

Mr. BARNES. Just the counterplay of opinion of dealers and consumers against the producers as to when a fair basis had been reached in a majority opinion. That would be the only counterweight.

Mr. VOIGT. Then, in case you have a surplus, your idea is that the price of the commodity is regulated by a different force than when there is no surplus?

Mr. BARNES. Yes, sir.

Mr. VOIGT. What would you think of a law which would require the brokers of grain to make periodical reports as to the quantity dealt in in advance?

Mr. BARNES. I think that has the same objection of putting complicated machinery into a process which at present is progressing very efficiently. If Mr. Tincher was not here I would express my opinion about a good many reports, but I do not dare. [Laughter.]

Mr. VOIGT. Have you any specific remedy to offer against manipulation?

Mr. BARNES. Yes, sir; I have the specific remedy that if you write into commercial practice the remedies I have suggested here, by which every farmer has a freedom to select his moment of marketing, you pretty nearly render manipulation innocuous. That

is the basic thing—put the farmer where he does not have to market until he is ready, until his market judgment says: "This is the price at which I ought to sell."

Mr. JACOWAY. Your warehouse receipts will do that?

Mr. BARNES. These warehouse receipts will do that.

Mr. VOIGT. The man who manipulates by buying or selling in very huge quantities oftentimes does not deal with the farmer or his representative; he deals with other speculators, does he not?

Mr. BARNES. Yes, sir; oftentimes.

Mr. VOIGT. You could not affect that sort of speculation by permitting the farmer to hold his warehouse receipts?

Mr. BARNES. No, but that kind of speculation will never reach a permanent price basis unless it is buttressed by the element of actual supply and demand conditions behind it, because every bushel that is sold or bought in pure manipulation must be also a counter-closed by a trade of equal weight at the same time.

Mr. VOIGT. You say it is not ethical in the grain trade for a man to go in with a large amount of capital, with the idea or view of fluctuating the price?

Mr. BARNES. Yes.

Mr. VOIGT. If that is so, then was it not unethical for the British Government to come into this country in 1917 and buy a vast amount of grain, and taking out of this country, besides the grain, a lot of money?

Mr. BARNES. No; I have written my explanation in the record on that; and that was not for manipulation, which your question contemplates. It was for the legitimate food supply of their own people. Heaven help us if we did not have some of that buying to-day.

Mr. VOIGT. Did I understand you, that the British Government in 1917 bought any more futures than they expected an actual delivery of grain?

Mr. BARNES. Precisely.

Mr. VOIGT. And they did not get as much grain as they had bargained for?

Mr. BARNES. They assumed that the fellows who had sold them these contracts on the hedge had in their possession the legitimate actual grain which would be tendered them in due time as their contract matured.

Mr. VOIGT. Mr. Barnes, I read your address before the Committee of Seventeen. In your address you made this statement: "For instance, if the British sterling were at its normal rate to-day, the present price level for flour and wheat in England would net our farmers a dollar per bushel more;" and then you went on to say something about the French and Italian currency?

Mr. BARNES. Yes, sir.

Mr. VOIGT. If that is true, then the depression of the pound sterling is at present operating to an enormous advantage for the British people?

Mr. BARNES. Well, is it? Or are they selling their own accumulated property at a depreciated pound sterling in order to get the means with which to buy this foodstuff and thereby getting no advantage?

Mr. VOIGT. If your statement before the Committee of Seventeen is correct, then I assume if the pound sterling were at par the exportable surplus of wheat would have brought approximately a dollar per bushel more?

Mr. BARNES. Yes.

Mr. VOIGT. And if the exportable surplus regulates what remains behind in this country, then the whole wheat crop of this country would have brought a dollar a bushel more in the American market?

Mr. BARNES. Yes. There is no conflict there, if you get this picture, that after all their possessions—their property, their accumulated resources—are stated in pound sterlings. It takes just as many pound sterlings per day to feed every individual as it did when the pound sterling was worth $4.80. But that pound sterling furnished at the same rate of pound sterling to-day in this country buys that much fewer dollars from our people.

Mr. VOIGT. Would not that explanation alone account for the low price of wheat?

Mr. BARNES. It has a great effect on the price of wheat, but the fact is that the wheat market has advanced 40 cents per bushel, say, since the first of December; at the same time that the pound sterling has advanced 50 cents per pound, or just about sufficient to meet the difference. It may be only a coincident, and it may be a real effect.

Mr. VOIGT. I was wondering whether if the pound sterling did go to par, whether the price of the wheat, as a measure in English money, would not have a lower quotation?

Mr. BARNES. Yes. I think it might, because there would be set up, besides the inference of pound sterling, the inference between difference in sellers. This fall we have been in a peculiar position, and North America has furnished over 80 per cent of the overseas supply of wheat. So that this fall, at least, if the pound sterling had been worth $4.80, they would still have had to give enough per pound sterling to buy that wheat from our farmers, and if our farmers were in position to demand it, or our home supports sufficient sterling to enable that price to be demanded, we might have got our whole dollar a bushel more.

Mr. VOIGT. For myself, I can not see my way clear to agree with you on that statement of the pound sterling. Suppose you look at it in this way, that the pound sterling has depreciated in buying power; that is true, is it not?

Mr. BARNES. Yes. Now, then, when the pound sterling goes to par, the appreciation in buying power——

Mr. VOIGT (interposing). Then, if the sterling gets back to par, would it not take so much less to buy a bushel of wheat than it does at the present time?

Mr. BARNES. If our price remained the same, yes. But supposing our price did not remain the same. Supposing that our price did advance with the domestic conditions and holding attitude on the part of the farmer, and all other influences that make up the price decision, we might get a dollar a bushel more without requiring from the British any more pounds sterling when it is worth $4.80 and in the pounds sterling they have to give up to-day.

Mr. VOIGT. Let us look at it this way: Suppose the price of sterling dropped 50 cents value to-morrow, is it your judgment that that would have a very big effect on the price of wheat in this country?

Mr. BARNES. Yes, it would. And that is why I am not so discouraged on the agricultural position of this country, except temporarily, because these foreign exchanges, after all, are only the interests that indicate the buying power of those people; and as it works back toward normal, they will be able to pay us a better price in dollars, which is our measure of value. I do not believe we are going to have 7-cent cotton hopelessly in this country for so very long.

Mr. VOIGT. Assume that a bushel of wheat in England is worth £1 $4.85; assume that to-morrow the pound sterling in exchange drops 50 per cent of its value; that is, it would require twice as much of English money to buy American dollars in the exchange. Would it not simply result in this, that, whereas to-day it would take $4.85 to buy a bushel of wheat, to-morrow it would take double that amount in the depreciated value?

Mr. BARNES. It would, except that the play and counterplay of economic influences are very intricate. The farmer who had been giving the equivalent of $4.80, for instance, for wheat would not sell his wheat to-morrow for $2.43, and from the very fact that he abstains from marketing it, plus the influence of merchants who feel the same way, would force the British to compromise somewhere on that fall and not put it all on the American farmer somewhere along the line, according as the great play of inferences may stabilize at some point between those two extremes that you indicate.

The CHAIRMAN. Do you suggest public warehouses, Mr. Barnes, operated by the Federal Government?

Mr. BARNES. No, I do not.

The CHAIRMAN. Do you suggest bonded warehouses?

Mr. BARNES. Well, bonded by liability companies, that the operator of the warehouse will make good his receipts. That is already a commercial practice, Mr. Chairman.

The CHAIRMAN. You think it could be made negotiable?

Mr. BARNES. Yes.

The CHAIRMAN. Are receipts for future delivery bought and sold outside of the exchange?

Mr. BARNES. It happens that the great trade is concentrated in the exchanges, but there is no reason why future-delivery receipts should not be bought and sold outside the exchanges, and these country elevator tickets would be.

The CHAIRMAN. They can be sold?

Mr. BARNES. Yes, sir.

The CHAIRMAN. Just the same as terminal receipts?

Mr. BARNES. Yes, in the country grocery store.

The CHAIRMAN. Do you think it should state the official grade?

Mr. BARNES. Yes, sir.

The CHAIRMAN. And should be according to the official standard?

Mr. BARNES. Yes, sir.

The CHAIRMAN. And state the specific grade?

Mr. BARNES. Yes, sir.

The CHAIRMAN. Giving the full amount, number of bushels, grade, and fully insured?

Mr. BARNES. Yes, sir.

The CHAIRMAN. So as to be made negotiable; otherwise not?

Mr. BARNES. Yes, sir.

The CHAIRMAN. What are the number of grades deliverable on contracts?

Mr. BARNES. There are a wide number in each market. My own conviction on that is that the wider you make the merchantable grades the safer you make this insurance trading in futures.

The CHAIRMAN. The number of grades would be limited to one on the warehouse receipt, would it not?

Mr. BARNES. No; there are a number of grades deliverable.

The CHAIRMAN. Not on the warehouse receipts?

Mr. BARNES. Oh, the warehouse receipt states specifically that is the one deliverable.

The CHAIRMAN. The future sales have a wide range?

Mr. BARNES. That is right.

The CHAIRMAN. Anyone buying a receipt would have the assurance of having a certain grade deliverable on that receipt?

Mr. BARNES. That is right.

The CHAIRMAN. Why is it necessary to have a wide range of grades deliverable on a future contract?

Mr. BARNES. Because the chief abuse of the exchange trading heretofore has been the accumulation of quantities by manipulators in sufficient quantity so that they could not be liquidated by actual grain deliveries, and I would make that so wide that no man would deliberately enter upon a campaign to accumulate quantities for forcing settlement.

The CHAIRMAN. That would be in the interest of the seller. But how about the buyer, who desires a certain brand of wheat in order to produce a certain brand of flour? He has no assurance that the wheat he receives will be the kind desired.

Mr. BARNES. No. All the exchange trade would do for him would be that he would have the insurance service of a national price level, and from that level or premium or discount he could find the individual who had his specific kind of wheat, and set up a trade with him and some relation to that exchange national price level.

The CHAIRMAN. But in delivery of grain on the exchanges it is fixed differences and not commercial differences?

Mr. BARNES. Yes, sir.

The CHAIRMAN. Then, where is the guarantee? Is he at the mercy of the exchanges, more or less?

Mr. BARNES. No; because he finds a seller who has that specific kind he wants, and bargains with him for the particular grade in relation to the exchange price that he must pay for his own choice of wheat.

The CHAIRMAN. If a certain grade of wheat is delivered at a specific discount of 5 cents and the commercial discount is 10 cents he would be unable to find a buyer? We will say that No. 2 had a difference over No. 3 of 5 cents—No. 2 is $2 and No. 3 is $1.95—fixed difference?

Mr. BARNES. That is the fixed difference; yes.

The CHAIRMAN. Fixed difference of 5 and a commercial difference of 10. He would have the wheat delivered to him at $1.95 and it could not be sold for more than $1.90. He would be out 5 cents, would he not?

Mr. BARNES. It could not be delivered to him under contract unless it was a difference the contract stated—10 cents.

The CHAIRMAN. The contract stated 5 cents, while the actual difference was 10 cents. I understood the testimony of a number of witnesses who have testified that sometimes the commercial difference varies as much as 10 cents, while the fixed difference is 5.

Mr. BARNES. Yes; but if a contract is now maturing in which the fixed difference is 5 cents on a grade of wheat, its commercial difference will not be 10; it will be 5¼ or 5½; for someone will take it in on the commercial difference and make that small commission. They stabilize themselves and offset themselves.

The CHAIRMAN. Provided you can find a buyer?

Mr. BARNES. You have a buyer if the difference is fixed at 5 cents. Mr. Chairman, that is going on. We have marketed 500,000,000 bushels of wheat in this country since the 1st of July on that very basis. There are no deliveries any longer on exchange contracts, except the potentiality which exists—in case of need, deliveries will be made. But all the time 500,000,000 bushels of wheat flowing into these markets is trading on individual judgment, seeking buyers and sellers at some relation in respect to that price level, not the price level itself.

The CHAIRMAN. The fixed difference is fixed by the operator and the commercial difference is fixed by the actual market?

Mr. BARNES. Yes, sir.

The CHAIRMAN. Would it be better to have this fixed by disinterested parties than to have it fixed by interested parties?

Mr. BARNES. The judgment of no disinterested party is as safe a representation of the relative value of grades as the free play of the respective judgments on the policies.

The CHAIRMAN. Then, why sould you limit the warehouse to a specific grade?

Mr. BARNES. Because that represents the grain which was received, and all the warehouse man contracts to do is to return the grade which he did receive.

The CHAIRMAN. He contracts for No. 2?

Mr. BARNES. He did not contract for No. 2, except that it stated No. 2 as a matter of convenience. What he contracted for was one of the 21 Chicago grades—No. 1 at such a price and No. 2 at such a price.

The CHAIRMAN. Should not the grade be specified by contract?

Mr. BARNES. No.

The CHAIRMAN. We are taking into consideration the two interested parties.

Mr. BARNES. Mr. Haugen, I am maintaining this position in the liquidity of that contract, and when you begin to confine it to given grades you introduce a narrowing of potential delivery which invites competition of delivery. But when you leave it open to the judgment of some disinterested party, as you have, you introduce a factor of doubt at the time the contract is made.

It is much wiser to fix the differences which the exchange provides in order that you may know what you get on a contract than to have the doubt injected that some disinterested party is going to give you wheat in which his commercial judgment differs from you as to its value.

The CHAIRMAN. If I contract for the farmer to deliver 100 bushels of No. 1 or No. 2 wheat, there can not be any doubt about that. If I contract for a future delivery I have to take either of the 23 grades.

Mr. BARNES. I get your idea, that the farmer does not have the same freedom that the terminal contract is sold at.

The CHAIRMAN. No; the warehouse is limited to the specific grade and so is the farmer?

Mr. BARNES. Yes; but only after he has delivered his specific grade in the elevator, then he must deliver that specific grade out, making his promissory note due; that is all the warehouse receipt is. It is a promissory note stated in No. 2 wheat. He got it in his warehouse and he delivered it out. He should not be given any right to tamper with it.

The CHAIRMAN. If you are a miller, and you are grinding wheat making a certain brand of flour; you are using spring wheat and producing that particular grade. You have no assurance of having a single bushel of that kind delivered that is necessary in your business?

Mr. BARNES. Not at all.

The CHAIRMAN. I am speaking for the miller. A few years ago we had this matter up, the millers came before this committee, and they said that these contracts are of little value. You will find millers to-day who never think of buying a bushel of wheat in Chicago but they do hedge in Minneapolis, because there are only nine grades deliverable there, and they have some assurance that spring wheat will be delivered on their contract.

Mr. BARNES. Yes; if a miller wanted to buy certain grades of spring wheat in Chicago, he could go there and get spring wheat and nothing else. What I am trying to picture is a national level.

The CHAIRMAN. You can not do that on the exchanges for future delivery.

Mr. BARNES. The contract with this speculator is for No. 1 or No. 2 Northern for delivery any time he wants to specify. What he wants to do is to be able to get that limited in the cash of the wheat at the same price as he can this wider market level, which is made wide on purpose to take it out of the hands of manipulators. He ought to expect to pay a premium for his designated quality. What the miller wants to save is the right to go on and contract at this national price level for this specific kind of wheat without paying any premium.

The CHAIRMAN. It is a question of how much advantage is given the seller. It seems to me that in order to protect the buyer he should have something to say about the grades deliverable.

Mr. BARNES. The history of that is written in the corners which we have had in the grain trade.

The CHAIRMAN. They now have to conform to the official standards provided by the exchange.

Mr. BARNES. Yes.

The CHAIRMAN. And in that respect I think it has been improved on. The question is shall it be limited to a certain number of grades delivered on that contract? Men have come before this committee and they have insisted there should be some limit. Many contend that the contract made on the Minneapolis exchange is very fair, and the others too liberal.

Mr. BARNES. The reason for preferring Minneapolis is not alone contract grades.

The CHAIRMAN. And Kansas City, too.

Mr. BARNES. But there is a geographical reason why Minneapolis only delivers spring wheat or grades of spring, and why Chicago delivers spring, winter, and reds.

The CHAIRMAN. It would be possible for Chicago to have two rings or three rings, instead of one, would it not?

Mr. BARNES. Yes.

The CHAIRMAN. One dealing in spring and one in winter wheat?

Mr. BARNES. Yes; and thereby you segregate these very classes of trading, the very thing that destroys liquidity.

The CHAIRMAN. One who was buying winter wheat would naturally go to that ring; and the miller who was buying spring would go to the ring where spring was sold.

Mr. BARNES. He can go to Chicago, and in the same ring, by paying the premium, by bargaining with the owner for hard winter wheat, get hard winter wheat.

The CHAIRMAN. That is outside of the exchange. I understand that one can go to Armour and contract for No. 2 wheat and have it delivered, but that is not the rule of the exchange, as I understand it.

Mr. BARNES. But the division of that business into specified qualities puts back the day of manipulation, when all you have to do is to buy some paper contracts to squeeze somebody. That would be a retrograde movement.

The CHAIRMAN. You do not believe it necessary for Congress to interfere?

Mr. BARNES. I do not believe any of the remedies proposed in these bills would eliminate the abuses, and they would certainly tend to break down the useful service of the exchanges as in its present simplified operations.

The CHAIRMAN. You do not believe in interferring with the operations of the exchanges at all, as suggested in the Tincher bill, and I believe in all the bills, but are in favor of leaving it open?

Mr. BARNES. I do not.

The CHAIRMAN. What happened during the war with the limitation on trading of 200,000 bushels?

Mr. BARNES. That was because the usual play of supply and demand was suspended by war interferences. There was no overseas transportation. The frontiers of every nation were closed to exports and imports. None of the usual play which produces fair competitive operations was permitted.

The CHAIRMAN. Would that work an injustice to any one?

Mr. BARNES. Eventually it would work an injustice to the producer. The time came when we took it all, because we felt he was not getting a fair opportunity.

The CHAIRMAN. You spoke about the grades. Were not the official grades changed quite frequently?

Mr. BARNES. No; there have been some minor changes at the beginning of the crop year. My whole emphasis is to see if they can not simplify grades so you do not have to keep bins and boats partly filled with all the attendant difficulties of transportation and storage.

The CHAIRMAN. Should a grade be permitted to be changed during the marketing of a certain crop?

Mr. BARNES. It would be very unwise to do it unless unusual conditions demanded it.

The CHAIRMAN. Changes have been made, have they not?

Mr. BARNES. I can not recall any, except at the beginning of the crop year.

The CHAIRMAN. It seems to me that in the month of August or September the spread in the grades was 41 points, while later on it was narrowed down, I think, to 11.

Mr. TINCHER. A year ago there was a change made in the Federal standards.

Mr. BARNES. Was not that in time to catch a crop movement affected by it?

Mr. TINCHER. A good part of our wheat had gone on the old grades; it was right during the threshing season.

The CHAIRMAN. The complaint of the farmer was this, that while the farmer was marketing his wheat there was a spread of 41 cents; that is, one selling the lower grade received 41 cents less than one selling the higher grades, and after the wheat had passed out of the farmer's hands the spread was narrowed down to 11 points. Therefore, the holder of the wheat at that time gained to the extent of 30 cents a bushel.

Mr. BARNES. You are talking now about the market differences in grades, are you not?

The CHAIRMAN. The spread between the lower and the higher grades.

Mr. BARNES. The lowest quality of wheat always does sell on samples, and if there is a free and open market where the individual qualities of that sample will produce its rightful relation, no matter what the paper value may be quoted.

The CHAIRMAN. It was through the regulation of the Federal authorities that it was officially equalized at 41 cents, and later changed from 41 to 11.

Mr. TINCHER. Yes; but do you not think the wheat buyers under the regulation were enabled to take advantage of that kind of spread, and under subsequent regulation were prevented?

The CHAIRMAN. I am not criticising what was done, but merely want your opinion as to changing grades. For instance, a grade is fixed, we will say, in July. It should then remain in force a year, and should it not be left to the discretion of the department, or any one else, to change it during the marketing of that crop?

Mr. BARNES. I think you are quite right; there is a fundamental principle; it should only be changed if there is such clear demonstrated injustice.

Mr. TINCHER. It should only be fixed once.

The CHAIRMAN. Is that when changes and discounts were made for wheat containing smut?

Mr. BARNES. Are you talking about the Grain Corporation scale.?

The CHAIRMAN. The exchange and the marketing of grain?

Mr. BARNES. The exchanges had nothing to do with that.

The CHAIRMAN. What ought to be done in respect to the grades?

Mr. BARNES. Mr. Haugen, I agree with you in principle that grades should be fixed before the beginning of the crop movement, as fairly as possible, and then should not be disturbed or altered unless there is the clearest evidence of mistake which leads to substantial injustice somewhere.

The CHAIRMAN. Were certain discounts made for smut early in the season and later removed?

Mr. BARNES. I do not recall that. I do not think so.

The CHAIRMAN. Some, I think, from the western States, complained about it.

Mr. BARNES. Last year all the wheat director, through the grain corporation, did was to establish a minimum price at which it would buy any wheat of any grade, of any farmer, and left it free to the trade themselves to pay or, if in their judgment it was entitled to

more, and the fact remains that after the first three months the whole crop of the country was marked far above the corporation basis.

The CHAIRMAN. I do not want it to be understood as criticising or finding fault with the grain corporation. The complaint was that changes were made in the grading. There has been a good deal of controversy over that matter, one of the complaints was that while the farmers were marketing their wheat a large discount was fixed on smut, and about two or three months later, after the wheat had passed out of the hands of the farmer, a new regulation was promulgated which removed the difference or discount.

Mr. BARNES. That might be quite true; I do not recall the individual circumstances. But it might be the grain corporation fixed the minimum which it would pay for certain qualities not specified in the federal standards of grades and might have found by practical experience two weeks after that that price was too low compared with standard qualities of wheat, and raised it. How the grower could suffer from that as long as it was a minimum price, and traders, millers, and buyers who thought the minimum quality was better could have paid more than the grain corporation minimum, I fail to see.

Mr. RIDDICK. Mr. Barnes, there is nation-wide complaint, justified I think, about the spread between the price which producers of wheat and other farm products received and the price the consumers have to pay. Was that spread on wheat products greater or less during the war than under present normal conditions—I mean with the war-regulatory restrictions?

Mr. BARNES. That narrowed during the war and narrowed naturally, not by regulation but because with the fixed price and the minimum guarantee under the market all the time, we took out of the trade many of those hazards which make them secure themselves by wider margins.

Mr. RIDDICK. Do you not think we would be justified in trying to find some way to narrow that margin now?

Mr. BARNES. My heavens, your distress now is that the miller can not live now on the margin he now has.

Mr. RIDDICK. Neither can a farmer live.

Mr. BARNES. Then your quarrel is with the basic price, and it is not with the spread between the two prices. This is illustrative by this chart, showing the difference between the farmer's price of wheat and the mill price of flour, and it extended up to December last. (At this point Mr. Barnes exhibited chart list to the committee.) Here [indicating] is the spread during the early months of the war, 1917, between wheat and flour, and there is what happened during the stabilization of grain.

Mr. RIDDICK. Is not that a strong argument for reorganizing some of these agencies?

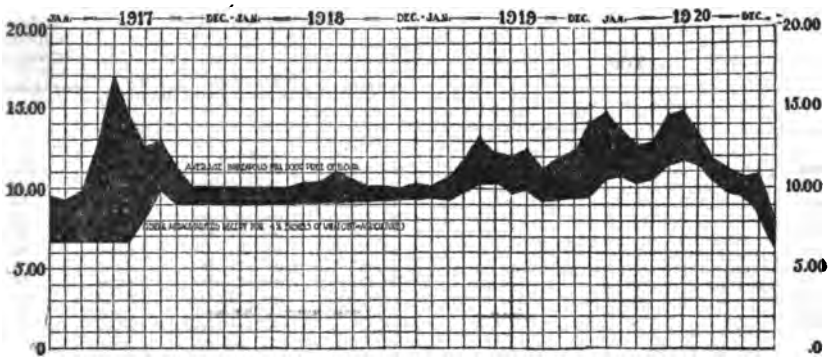
Mr. BARNES. No, because the chart shows that as Government regulations here and abroad are gradually eliminated, the trade margins could be normal again.

The CHAIRMAN. Do you suggest incorporating this chart in your remarks?

Mr. BARNES. Yes, please.

The CHAIRMAN. Without objection it will be incorporated.

(The chart referred to and submitted by Mr. Barnes is here reproduced.)



Mr. WELLS. I wish to introduce into the record Tables 3, 5, and 10, from the Federal Trade Commission Report on the grain trade, Volume V, which will show the volume of future trading on the Chicago and Minneapolis exchanges for a period of years. I also wish to offer and ask to have incorporated in the record a telegram from the manager of the Minneapolis clearing house, showing the actual volume of wheat and oats sales cleared through the clearing house for 30 days prior to January 1.

The CHAIRMAN. Without objection it will be done.

(The tables and telegrams referred to and submitted by Mr. Wells are here printed in full as follows:)

TABLE 3.—*Number of items cleared and indicated volume of future trading on the Chicago Board of Trade, 1910–1918.*

Calendar year.	Number of items cleared.	Items index number (per cent of 1915).	Clearance index number.[1]	Estimated volume of grain futures.[2]
1910	1,583,759	78.64	96.00	14,800,000,000
1911	1,323,519	65.72	71.51	11,700,000,000
1912	1,302,600	64.68	71.21	11,600,000,000
1913	1,208,249	59.99	61.49	10,300,000,000
1914	1,502,271	74.59	73.77	12,600,000,000
1915	2,013,965	100.00	100.00	[3] 17,000,000,000
1916	2,418,475	120.00	159.29	23,800,000,000
1917	2,248,759	111.66	99.71	18,000,000,000
1918	1,631,295	81.00	61.61	12,000,000,000

[1] Clearances qualified with reference to the average price level. See following table.
[2] Except as regards 1915, based upon the relation of the mean of the two indices to the estimated volume for 1915.
[3] Based upon tax data, as explained in the text. The apportionment of the figure for the 21½-month period of the tax assumes that the trading per month in 1916 was almost 50 per cent greater in volume during the final 3¾ months than during the first 8¼ months of the year. This is in accordance with the ratio indicated by Chicago future-trading returns.

TABLE 5.—*Earnings of the clearing house and estimated grain futures cleared, Minneapolis Chamber of Commerce, 1904–1918.*

Year.	Years ending July 31.			Index numbers for figures adjusted to calendar year.
	Earnings.	Estimated [1] futures cleared.	Index numbers.	
		Bushels.		
1904	$19,877.12	1,073,365,000	80.46	102.60
1905	23,706.79	1,280,167,000	95.96	104.59
1906	19,342.98	1,044,521,000	78.30	94.18
1907	20,222.88	1,092,035,000	81.86	93.38
1908	18,590.35	1,003,879,000	75.25	83.84
1909	16,082.42	868,451,000	65.10	85.37
1910	20,365.35	1,099,729,000	82.44	97.05
1911	20,234.64	1,092,670,000	81.91	90.99
1912	17,375.63	938,284,000	70.34	83.66
1913	17,692.56	955,398,000	71.62	79.17
1914	14,997.65	809,873,000	60.71	78.10
1915	18,231.33	984,492,000	73.80	100.00
1916	24,704.00	1,334,016,000	100.00	122.62
1917	27,003.89	1,458,210,000	109.31	85.38
1918	5,081.03	274,376,000	20.57	.....

[1] Estimated from the earnings of the clearing house (at 2½ cents per lot) upon the basis of 2,700 bushels as the average size of the lot (counting each trade in 1,000 lots or multiples as a number of lots equal to the number of thousand bushels, and each multiple of 5,000 as so many 5,000 bushel lots). This average figure is obtained by weighting the average for different classes of houses by the estimated shares of each in future trading at Minneapolis. Fees for transfers of stock and fines for errors in returns to the clearing house are disregarded. The 2½ cents per lot is paid by both buyer and seller.

TABLE 10.—*Estimated volume of future trading (in millions of bushels), in the principal cereals on the futures markets of the United States, by 5-year periods. 1884–1888 to 1914–1918.*

Five-year period.	Chicago.		Minneapolis.	Kansas City.	St. Louis.	Other markets.[1]	Total.	
	Each 5 years.	Average per year.					Each 5 years.	Average per year.
1884–1888	108,500	21,700	.....	[2] 500	[3] 1,100	7,900	118,000	23,600
1889–1893	81,000	16,200	[2] 500	[2] 600	[3] 700	7,000	89,800	18,000
1894–1898	98,600	19,700	[2] 2,000	[2] 800	[3] 500	6,300	108,200	21,600
1899–1903	81,960	16,400	[2] 3,000	[1] 1,500	[2] 1,200	9,600	97,200	19,400
1904–1908	72,200	14,400	5,500	2,200	[2] 1,500	13,000	94,400	18,900
1909–1913	65,000	13,000	5,000	2,900	1,600	5,300	79,800	16,000
1914–1918	83,400	16,700	4,900	3,300	1,200	4,200	97,000	19,400

[1] In part arbitrary.
[2] Arbitrary.
[3] Based on data of call transactions shown in Vol. II, Ch. IV, sec. 6, of this report.

MINNEAPOLIS, MINN, *January 13, 19*.

FREDERICK WELLS,
Shoreham Hotel, Washington, D. C.

Wheat, thirty-three hundred thousand; oats, six hundred thousand.

W. S. WILLIAMS.

The CHAIRMAN. We are very grateful to you, Mr. Barnes. The committee will now adjourn until to-morrow morning at 10 o'clock.

(Thereupon at 1.45 o'clock p. m. the committee adjourned to meet to-morrow, January 18, 1921, at 10 o'clock a. m.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Thursday, January 20, 1921.

The committee met, Hon. Gilbert N. Haugen (chairman) presiding.

STATEMENT OF HON. HERBERT HOOVER, WASHINGTON, D. C., FORMERLY UNITED STATES FOOD ADMINISTRATOR.

The CHAIRMAN. Mr. Hoover, the committee has invited you to appear here this morning so that we might have the benefit of your experience and knowledge. We will be pleased to hear from you on the subject covered in the bills pending before this committee.

Mr. HOOVER. A perusal of the Capper-Tincher bill or the Gronna-Haugen bill shows that it is not the intention of these bills to suppress trading in grain futures. What the legislation is obviously seeking is a method by which manipulation of hedging operations against the interest of producers and consumers can be prevented.

During the war the Food Administration eliminated such manipulation in the corn market by securing a voluntary limitation by the exchanges of the quantity of corn that could be bought or sold on option by any one firm or individual that was not represented by the actual grain or commitment for the grain in some stage of marketing. That limitation was well carried out and during that period there was no manipulation of the market and no substantial interference with the normal processes of the hedging market. I do not believe that determination of the precise quantities or methods should be fixed by law, as all such attempts to control economic forces must be tentative and based upon experience gained.

My own conclusions are that we should have a national marketing board of experts, under the Department of Agriculture, whose outlook is primarily to improve marketing conditions, that some regulatory powers should be given them of this nature and that they should determine the precise procedure from time to time for administrative action by the Secretary of Agriculture. They could also accomplish a great deal in improving the trade processes through agreement with the trades; by the establishment of standard practices in cooperation with them. One function of such a board, for instance, would be to provide regulation which would secure the extension of public warehouses in such a manner that the farmer can store his grain at any country elevator or terminal and obtain such a recog-

nized warehouse receipt that will open to him new credit beyond his abilities to loans against holdings on farms. Such a board could give great assistance to the development of cooperative marketing and other important improvements in our marketing processes.

In other words, my own leaning of mind in this matter is that. while I believe some provision against manipulation of the market is necessary, attempts to determine the method by more or less inflexible regulation in law may involve considerable danger, and that it would proceed better through some moderate regulatory powers in the hands of a board.

I find from a study of the bills you have before you that the bills themselves rather disclose the difficulty of meeting all of the many different contingencies that arise in trading. It is a very, very difficult thing to set down rightful trade practices or prohibitions of trade practices with precision. One can not determine until such measures are put into operation whether or not they may be subject to evasion on the one hand, or whether they may not act as a great detriment to the legitimate functions of the exchanges on the other hand. I believe that the more flexible control of some board or commission would permit the development of such regulation in a manner not to interfere with the legitimate phases of the trade and at the same time eliminate, as far as can be done, its wrongs.

I do not understand that the economic value and importance of hedging operations has been brought into question at all. I gather from a reading of these bills that there is a recognition of the economic importance of continued hedging operations, and that the real object of that legislation is to eliminate wrongful manipulation. So I do not assume that any discussion as to the importance of hedging as an economic operation is necessary at this time.

Mr. McKinley. Mr. Hoover, can a man be able to sell and hedge unless there is some speculator that wants to buy it?

Mr. Hoover. That is true to a certain extent, but in my own view the wrongful manipulation of the market is accomplished only by the sale or purchase of very large quantities of grain. With the volume of material that is daily handled it requires, perhaps, several millions of bushels to materially affect the price. Of course, the main defense of large short selling is that that grain must be all bought back again and that it tends to stabilize the market from an undue depression.

On the other hand, I have the feeling that very large volumes of short selling that are deliberately intended to depress the price result in considerable injury and loss to holders, particularly farmers, who are not in a position to hold as against a lowering price, as in the case of men who have outstanding obligations. They are forced into liquidation, and grain is brought into the market that would not normally flow there, and thereby such a manipulation has a damaging effect on price and works great injustice.

Mr. McKinley. I gather from your statement that your idea of a corrective would be a development of the grain market, such as the Bureau of Markets are now attempting to develop, for the smaller food crops—fruits, and so on?

Mr. Hoover. Yes. I believe that there is a large function here to be performed constructively. If you take the grain trade by and large you will find that the vast proportion of the men are engaged

in a perfectly sound and legitimate business; that their desire is to build up sound business practices. But there is always a minority of men in business whose actions tend to depreciate in the public mind the repute of a whole trade. In consequence, it is nearly always possible to arrive at some voluntary basis of agreement with the majority of a trade that will eliminate most of the wrongdoing. In any avent, if it were in the hands of some kind of a board who would look upon their function as one of a constructive order, I believe they would receive the support of the exchanges and the trade generally in the improvement of business practices and the elimination of wrongdoing. If they had some authority, I believe a great deal could be done not alone in the present practices under discussion, but also in many processes of our marketing system that are possible of material improvement.

Hedging itself, in my own belief, would be worth discussion as applicable to other grains not now traded in that way. Perhaps such a board might find it advisable, because the margin between the farmer and the consumer is certainly less in those grains that have a free hedging market than it is in those commodities that have no opportunity for such action in distribution; in the case of beans, for instance.

I do not put it forward as being a proposal to be accepted with surety, but if such a marketing board were created one of the first things that I should like to see it consider is whether it is not advisable to establish systematic hedging in the bean market, with a view to reducing what are now very wide margins between the farmer and the consumer. Hedging, if it can be reduced to its legitimate function, is a real form of insurance, and all forms of insurance tend to minimize the cost of distribution.

Mr. WILSON. May I ask, Mr. Hoover, what has been your experience in dealing with produce and different kinds of products that are handled on the exchange and those that are not handled on any exchange?

Mr. HOOVER. I would not want to state it from the point of view of experience, as I have never dealt in those things. My belief is that those grains that have a free hedging market are marketed more efficiently than those that have not. The margin, for instance, between the farmer and the consumer in barley, which has not so free a market as wheat or corn, is a very much wider margin, and again, the margin in beans, which have practically no hedging market, is very wide.

There are many reasons for that. One of them is the necessity for the farmer to have a national price, some price that he can see every morning and against which he can check his local dealer.

The same interest lies with the consumer, that he shall have a national price that will be determined every day by the ebb and flow of supply and demand at some central place. Where a commodity is dealt in locally there is not only a tendency of the local buyer to make the price to suit himself, but as there is no national price he must make a lower price in order to secure himself from the hazards in finding a market.

Mr. WILSON. Can there be a free hedging market unless there is a sufficient number of buyers to take care of it?

Mr. HOOVER. That is the exact bone of contention in all this matter. That is, can the hedging market be maintained without the speculative buyer or seller? I would not want to say that there could be or could not be. I could only base an answer on the experience of the Food Administration during the war; at that time we certainly had a free hedging market in corn. As you know, the market in wheat was abolished under the Government guaranty, but the trading in corn futures went on, and there certainly was a free market in them. In this case there was a limitation put on the volume of wholly speculative transactions. As I remember, 500,000 bushels was initially the maximum that could be traded in, except for futures represented by some definite movement of the commodity itself. In other words, if we define terms for the purpose of discussion, using the word "speculation" with reference to the class of options that have not the background of a commitment for the commodity, and call the other class a hedging operation, then we limited the "speculative" maximum to 500,000 bushels.

Mr. WILSON. You do not find that free market you spoke about in such products as beans and rice and other vegetables of that order, do you?

Mr. HOOVER. No.

Mr. WILSON. Do you think it is easier to corner a market of a product that is not handled on these exchanges than it is where they are handled on the exchanges?

Mr. HOOVER. I should think that theoretically it would be.

Mr. WILSON. I did not know whether you had had any experience in that line during the war.

Mr. HOOVER. No.

Mr. WILSON. I know that the price of beans mounted sky high, of course, and I wondered if there was any combination by the producers of beans or any action on the part of any individual with large capital to corral that product, so to speak.

Mr. HOOVER. No; not the latter. The bean growers are organized into several associations of pretty large importance, and they sell in common, or at least they sell with some understanding. During the war, for instance, when we had a great shortage of beans for a considerable period, the tendency of these associations was naturally to advance the price, but there was no attempt at manipulation by a large purchase of beans. Such lifting of the price as there may have been by agreement was on the part of the producers' associations in the exercise of a function that is recognized as legitimate to farmers in cooperation.

Mr. WILSON. I do not know much about the authenticity of the statement, but I have heard that during the war one of our departments here found that the vinegar market had been corralled. They sent an agent to Europe to buy vinegar for the soldiers of America, and while they were over there they bought it so much cheaper than they could in this country that they bought 4,000,000 gallons just before the war closed. I would like to know if anyone, to your knowledge, in any way cornered the market on vinegar or any of those products.

Mr. HOOVER. No; I do not think there was any attempt to corner it. Vinegar is a case where there was a demand for certain acid which decreased the vinegar output, and the vinegar manufacture

was in the hands of a comparatively few people, and they naturally took advantage of the short supply. But I do not think there was any attempt to corner the market in the sense of getting all the supply together, and that sort of thing. We placed certain regulations on vinegar that I am certain solved that question pretty well.

Mr. McLAUGHLIN of Michigan. Some of these bills set a limitation on the number of dealings that there may be in a commodity. You have suggested a limitation on the quantity which can be bought and sold?

Mr. HOOVER. Yes.

Mr. McLAUGHLIN of Michigan. What are the relative merits of those two propositions, in your mind?

Mr. HOOVER. It seems to me that the weight of a great quantity sold or bought in the market is the important thing to consider; it is not the number of dealings. In other words, a man might deal 20 times in 10,000 bushels of grain and not affect the market, whereas if he threw 20,000,000 bushels of short sales into the market he would affect it very materially. It seems to me it is a question of quantity and not of the number of dealings.

Mr. McLAUGHLIN of Michigan. During your service as Food Administrator there was a limitation on quantity with respect to corn?

Mr. HOOVER. Yes, sir.

Mr. McLAUGHLIN of Michigan. Was that a fixed limitation or did you vary it from time to time as conditions seemed to require?

Mr. HOOVER. As I remember, we varied it on two or three occasions. I do not now remember precisely the background of those occasions.

Mr. McLAUGHLIN of Michigan. You have said, as I understand you, that there is evidently a very large majority of the dealers on the exchange who are dealing in the actual commodity—who are engaged in legitimate transactions, as we might term them. I have wondered if you were entirely right in that, in view of the fact that wheat is sold 100 times over—100 bushels sold for every bushel in existence.

Mr. HOOVER. I have not any doubt of the very large volume of hedging sales and that a considerable multiplication of the actual commodity naturally follows from the system. You can take the arrival of a carload of wheat at, say, Duluth, and in the ordinary process of getting that carload of wheat to a cargo at the Gulf there will probably be a change of hands three or four times, and each one of those changes will involve a rehedging in the market. You could thus get a multiplication by four, and probably a multiplication by four takes place on many occasions in the natural flow toward the market, especially an export market. I am not aware what the total turnovers are, but there is some multiplication that would operate naturally in what amounts to a reinsurance of each man that takes possession of the commodity in its flow.

Mr. McLAUGHLIN of Michigan. There is a difference in the testimony here as to the number of times the crop is dealt in. Some say 10 times, some say 40, some say 100. No record is kept anywhere by which the accurate figures can be ascertained. It is only an estimate, but all estimates indicate that the crop is dealt in many, many times, and that seems to support the idea that many men are dealing in fictitious transactions, many more than are engaged in dealing in the actual products. It was for that reason that I noticed particularly your statement to the effect that in your opinion most of the dealers

are engaged in the actual business and most of the transactions relate to the actual commodities.

Mr. HOOVER. I do not think that without a very careful investigation anyone could state what the turnover of speculative transactions is as against what one might call hedging transactions. I have no doubt as to the very considerable volume of speculative transactions, but my own inclination is to believe that as long as those speculative transactions are in comparatively small quantities they neutralize each other; it is only when a preponderant amount is handled by one hand that it can be made the instrument of manipulation. The average margin between the farmer and consumer in wheat would not support the cost of many turnovers, unless somebody lost money on them.

Mr. WILSON. Did not some one testify here that the Internal Revenue Bureau had the number of transactions in grain, and did not the committee ask for it?

Mr. MCLAUGHLIN of Michigan. I know the Federal Trade Commission was making some investigation.

Mr. WILSON. I understood the Internal Revenue Bureau had done that.

Mr. MCLAUGHLIN of Michigan. The Federal Trade Commission is making some investigation, but its report is not ready. And I gather from what the gentlemen say who are familiar with the trading on these exchanges that it will be impossible for anyone to find out, because no record is kept.

Mr. MCLAUGHLIN of Nebraska. In answer to Mr. Wilson's question, as I recall it, Mr. Gates, of Chicago, states that the Internal Revenue Department did have those facts available, and he made a request here that they supply them to the committee. Of course, the committee understands that the Bureau of Internal Revenue is not permitted, under the law, to furnish any of those figures to anyone, and I think Mr. Gates knew that when he made his suggestion.

The CHAIRMAN. When the Federal Trade Commission prints its figures they will be a year late. It takes about a year to compile the report. They are not available for several months at least.

Mr. MCLAUGHLIN of Michigan. Mr. Hoover, there are some limitations as to memberships on these boards of trade. The cooperative associations have tried to become members of the boards of trade and they have always been excluded. Do you know why?

Mr. HOOVER. I do not remember now. I had to go into that dispute at one time, but I confess I have forgotten what the pros and cons of it were.

Mr. MCLAUGHLIN of Michigan. There is a cooperative association in Minnesota whose members are in the States of that part of the country. That association has applied for membership in the board of trade at Minneapolis and has been refused, and one of the principal grounds given for the refusal is that the method of trading by the cooperative association amounts to a splitting of commissions, and the board of trade has a rule against the splitting of commissions. Does that recall to your mind the reasons given and the gist of the controversy?

Mr. HOOVER. No. I recollect that quarrel, which we attempted to settle at one time. I have the impression that some of the farmers

elevator companies are represented on the board at Chicago, I may be mistaken.

Mr. McLAUGHLIN of Michigan. But not the representatives of cooperative mutual associations?

Mr. HOOVER. Well, the farmers' elevators technically, of course, are not always cooperative in the sense of mutuality, although they are owned by the farmers. But I am certain I do not have the information in that matter on my mind sufficiently to give you any worth-while answer.

Mr. McLAUGHLIN of Michigan. That matter has some relation to this inquiry, and besides we have a bill before us directly on that subject, which is urged very strongly by the gentlemen who are interested in it, and we are having the hearings together, and I thought perhaps your opinion on that would be valuable to us. Can you see any reason why the representatives of these associations should not be permitted membership on the boards of trade?

Mr. HOOVER. I do not see any reason why they should not have representatives there as much as any other trading firms in the country, provided they comply with the requirements as to liability, responsibility, just eqality in trading, etc.

Mr. McLAUGHLIN of Michigan. I understand the splitting of commissions is practically a rebate. When I first heard that term used I thought it was a dividing of commissions among the different members of the board of trade, perhaps, but I understand now that it really means that the commission merchant may return to the one for whom he has made his purchase or sale a part of the regular commission which the association requires him to impose. That is more of a rebate than a splitting of commissions, it seems to me, and it is urged that the method that a cooperative or mutual association has of making a return of profits or dividing up its earnings among its members amounts to a splitting of commissions. At first I was not able to see that, and I am not sure that I see it yet. Do you think that amounts to a splitting of commissions in an objectionable way?

Mr. HOOVER. do not know that I would approach it from that point of view; I would approach it from this point of view, that the development of the farmers' elevator has been a great benefit to the farmer, and I would think the exchanges, if they were liberally minded, would be glad to have representatives of those associations upon their own board in the development of the entire marketing machinery of the country. It would be a progressive step, and it would seem to me they ought to be able to arrive at some means of handling the technical difficulty that you have pointed out. While I am not in position to pass on the merits or demerits of it, I should think that it is not beyond solution, considering the desirability of having those associations represented on the board and thus bringing to one place for trading all the representatives of every fraction of the trade.

Mr. McKINLEY. Mr. Hoover, do I gather that if you are making any recommendation at all it would be that any bill that is passed should simply limit the size of the individual speculative trades?

Mr. HOOVER. I would carry it a step further than that and would give the power of such regulation to a board, making it flexible.

Mr. McKINLEY. A board under the Secretary of Agriculture?

Mr. HOOVER. Yes. I suggest a board, because there are more or less judicial questions to be determined. I believe that such legislation may lead to wholly unexpected difficulties if the act attempts to get precision and too little flexibility. It also might be found, as we found during the war, that if the power to make such regulations existed it would never be necessary to put it into force. They might, by agreement, be incorporated in the voluntary rules of the exchanges, with the advantage of much more powerful penalty than anything that the Government might impose—for instance, expulsion from the exchange.

Mr. MCLAUGHLIN of Michigan. During the war there was no future trading in wheat?

Mr. HOOVER. No.

Mr. MCLAUGHLIN of Michigan. And there was a guaranty of the price of wheat and a regulation of the entire wheat trade by the Grain Corporation. Many think that worked very well. Do you think that would be good as a permanent proposition under our Government?

Mr. HOOVER. No; I do not.

Mr. MCLAUGHLIN of Michigan. Why?

Mr. HOOVER. It involves the determination of the minimum price of wheat; it can not be avoided. I do not believe it is humanly possible to artificially determine the price of wheat from day to day and do it righteously. In time of war we had to choose between a great number of different evils; and if we attempt to replace by Government machinery the whole of the normal flow of our marketing we will have to determine the price that we are going to pay for wheat at some time. It can not be avoided. That price is a matter of the utmost difficulty in a decision as between the rights of consumers and producers.

The tendency probably would always be to put rather a high minimum price, and ultimately we would create an impulse to overproduction in some commodity or other, and then the Government would find itself with an enormous unsalable surplus. That is only one source of difficulty that would arise.

Mr. MCLAUGHLIN of Michigan. Well, there was one more regulation of the wheat proposition by the Grain Corporation which was instituted when that law fixing the guarantee price was passed. The law was passed fixing the minimum price, and I think those who were responsible for passing it did not have in mind that the price would also be made the maximum price, but that was the practical effect of the operation of the Grain Corporation.

Mr. HOOVER. That was the effect during the first 12 months, during a period of acute shortage. After the 12 months there was no stabilized price or a maximum price.

The 1917 crop turned out at just about equal to the normal consumption of our country, and we were compelled to abstract from that crop approximately 150,000,000 bushels for the Allies. That created, in fact, a most acute shortage, and under those circumstances and others that entered the problem, a stabilized price was necessary. But the moment the 1918 crop arrived there was no longer a necessity to fight against what was practically a famine, and there was no attempt after that time to stabilize the price at all. The minimum guarantee was alone defended. The result was that the

1918 crop price held pretty close to the guaranteed minimum by the ordinary flow of supply and demand. That was very natural, because the heavy marketing season during the three months after harvest produced a great surplus in the market, which had to be purchased by the Grain Corporation in order to defend the minimum, and then the Grain Corporation had to remarket that surplus at a later stage, and remarketed it at the price of the guarantee thus in effect, stabilizing the price at the minimum long into the harvest year.

In the spring of 1918, on the other hand, the Grain Corporation, having disposed of its purchases, the price went above the minimum. Again when we came to the crop of 1919 much the same cycle happened again.

Mr. McLaughlin of Michigan. There is another bill pending before this committee, providing, as I understand it, that the Government fix the minimum price of all or many of the staple farm products, and at a given time, perhaps late in the fall, shall take over any surplus at that price. What would be your view of such a measure as that?

Mr. Hoover. Well, we have never yet produced a human being with the intellectual possibility of determining the relativity of price between different commodities in this country in such a manner as not to totally ill-balance production. That is only one of the difficulties in such a program. If we set too large a ratio price on corn, for instance, with respect to other commodities, the country would go straight way into corn production and shorten the production of other grains. The determination of the relative value of different commodities is an impossible operation so far as human knowledge has yet developed. In other words, those are ideals of economic perfection that I do not believe we have yet attained.

Mr. Purnell. Mr. Hoover, you have emphasized the value and importance of the hedge, and I think the hearings before this committee would bear out that conclusion. Now, of course, if a man buys or sells a hedge against the actual grain somebody must have the other end of that transaction. In your opinion does it make any difference whether the man on the other side of that deal is a hedger or what he might term a speculator, or a gambler?

Mr. Hoover. Of course, perfection in our marketing system would mean that there were no speculators at all and that they were all hedgers on both sides. That there was enough demand and supply on both sides to equalize all transactions. That would be perfection. Such perfection does not exist.

Mr. Purnell. But, of course, that is almost impossible, is it not?

Mr. Hoover. That is almost impossible, and therefore there must be some speculators if there is to be a ready market for the hedger either way; there apparently must be some speculative dealing. That speculative dealing is not all with a view to creating an artificial rise and fall in the market by manipulation; a great deal of it is carried on by groups of men who act as a temporary reservoir for those transactions, men who are operating with a small margin of a half a cent or a cent a bushel, not engaged in attempting to manipulate the market one way or the other but in day-to-day business of the nature of arbitrage transactions. It is true they are speculators, but they have more the function of insurers.

Mr. PURNELL. This particular class of speculators—and I think this point is important in considering this legislation—neither sell or buy the actual product nor expect to deliver or receive it?

Mr. HOOVER. No.

Mr. PURNELL. It has been stated before this committee repeatedly that this class of traders are necessary in order to give liquidity and flexibility to the trade. Is that your view?

Mr. HOOVER. This is my impression. I do not believe anyone could determine its accuracy without actual experiment on a large scale. My impression is that a certain amount of speculative buying is necessary in order to get liquidity—a ready market. I do not regard that as especially harmful, for some one must in effect carry the surplus. The real harm is from the man who goes into the market with the deliberate intent of manipulating the price by the continued pressure of selling or buying.

Mr. PURNELL. That type of man you would class as a manipulator?

Mr. HOOVER. Yes.

Mr. PURNELL. And not as a speculator?

Mr. HOOVER. No; not in that sense. We lack a definition of terms here pretty badly.

Mr. PURNELL. I am not interested, first of all, in the small producer who must necessarily sell his crop shortly after it is harvested in order that he may have money to meet his obligations. It has been contended by some that this speculative trading, carried on at the very time when he must necessarily put his crop on the market, is a hindrance to the small man who must necessarily cash his gain.

Mr. HOOVER. I do not believe that the speculative trader, in the sense that we are now using that term, as being the intermediate man between hedging operations, is the man who is doing much damage to the farmer, but that the remedy lies first in the elimination of the direct manipulator and, second, in the provision of opportunity for the farmer to get storage under conditions that will provide him freer credit facilities so that he will not be compelled to sell.

Mr. PURNELL. Well, let us suppose a case. Suppose a farmer has 1,000 bushels of wheat that he must realize some money on, and he goes to his local elevator to sell that wheat. It is the custom in my section of the country, I think, for that elevator man to immediately buy that wheat and hedge against it.

Mr. HOOVER. Yes.

Mr. PURNELL. Of course, he buys that hedge of some fellow, we will assume, who is purely a speculator. It has been contended here that without that privilege the elevator man would have to buy that grain on a much wider margin.

Mr. HOOVER. I think that is possibly true.

Mr. PURNELL. And at a less price, in order to carry his own insurance.

Mr. HOOVER. Yes; to carry his own insurance.

Mr. PURNELL. So that the ultimate conclusion would be that the producer profits by a reasonable amount of speculative trading?

Mr. HOOVER. Yes; to the extent of operations that are limited the term "speculator" as distinct from the term "manipulator." I think the generalization that the margin between the producer and the consumer, with respect to wheat, is the narrowest margin we

have is a very considerable proof that there lies in hedging a form of insurance of advantage.

Mr. TINCHER. Mr. Hoover, one of the measures pending before this committee contemplates that that elevator man could in the course of 12 months, for the purpose of hedging that 1,000-bushel wheat transaction, sell in the future market only three times the amount of grain that he actually contemplated. As I understood you, you emphasized the necessity for the purpose of preventing manipulation by regulating trading in wheat futures, but that you think that elevator man that Mr. Purnell mentioned should be limited in the quantity and not as to the number of times?

Mr. HOOVER. That is my belief. To follow this three-time rule through—we may take one of the large grain firms that may have 10,000,000 bushels of wheat. They have an opportunity to use 20,000,000 bushels outside of their hedge. They could force the price with 20,000,000 bushels, whereas the elevator man you mention, with the extra 2,000 bushels, could not have any such effect. In other words, that method of control would, I believe, work in favor of the big operator and improve his position to carry on the manipulation.

Mr. TINCHER. That has been suggested to the committee several times. It has been suggested that there are two faults to the measure I introduced here. One is that it would enable a big operator to have more or less power in the market. The other was, as suggested by Mr. Barnes the other day, that my bill required too much bookkeeping and the printing of too many reports. Of course, I do not take that objection seriously, coming from Mr. Barnes. However, we are agreed upon this proposition, as I understand it, that there should be some regulation to prevent manipulation.

Mr. HOOVER. Yes; to prevent, in other words, these drives with a view to the artificial depression or raise of the price.

Mr. TINCHER. And your experience during the war—not saying anything about wheat, which had a Government-fixed price—in the handling of grain in this country has convinced you that such a regulation would not be injurious to the legitimate trade.

Mr. HOOVER. I believe it can be done without injury to the legitimate trade, and I believe it ought to be done in cooperation with the exchanges. They have a great proportion of constructively minded men, and if their cooperation can be enlisted they could carry out such regulation more efficiently than can sheer regulation by the Government.

Mr. TINCHER. Your idea is that if we pass a law it would work to the detriment of the country in general?

Mr. HOOVER. No; my own inclination would be to give to some authority the power of regulation, within limits——

Mr. TINCHER. The trouble about that, Mr. Hoover, is, as stated by Mr. McLaughlin—of course, it was during the war, but I do not suppose there was a Member of Congress that thought of passing a maximum price law for the wheat crop of 1917. But the act was so administered, without reference to whether it was right or wrong, that the maximum price was fixed in 1917, and I believe there is now quite a sentiment in the country in favor of direct laws instead of granting too much power to some commission or board.

Mr. HOOVER. I do not believe that anyone can determine in advance what is the best method of approaching these problems. My

fear is that if we attempt to make an inflexible law or regulation with no possibility of moderation we may do very great damage before it can be rescinded or altered.

Mr. TINCHER. There is always a chance of that in attempting to cure any evil by law.

Now, let us come back to the proposition of regulating the quantity or the number of trades. Do you think there would be any objection to limiting the number of trades if there were also a limitation of the quantity? The point I want to make is this. Mr. Purnell's grain elevator man would be amply protected if he could sell that future three different times; that is, he would have a sufficient hedge, would he not?

Mr. HOOVER. If it were done in that form it would eliminate trading by these intermediate men who take up the slack between hedges. It would eliminate all the men that we called "speculators" as distinguished from "manipulators."

Mr. TINCHER. I did not mean to eliminate all the speculators; the man I was trying to eliminate was the man that we would call a pure gambler.

Mr. HOOVER. I think it would mean that what we are now terming the speculator would be eliminated, because he holds no commodity or contract for it, and it would mean also, I think, that the large operator in grain would have an unusual upportunity for maniplation.

Mr. TINCHER. Under the present system the man that actually mills grain and the man that produces the grain are compelled to pay considerable toll to the man that manipulates the market or handles the market. I was wondering if we could not get rid of that expense, and thereby stabilize the market as well.

Mr. HOOVER. I think our difference of view is possibly only as to the means of approach to the same object.

Mr. TINCHER. Very well; that is all.

Mr. YOUNG. As I understand your suggestion, it is that there shall be set up some kind of a board, preferably in the Department of Agriculture, clothed with sufficient authority that they could do away with these abuses that now amount to a manipulation of the market in grain, and so on?

Mr. HOOVER. That is the idea.

Mr. YOUNG. There is another branch of the law, Mr. Hoover, that I am particularly interested in, and that is the branch that relates to the marketing of the great product of my section of the country—cotton. As you probably know, we have two exchanges in this country that deal in cotton, New York and New Orleans. There are very wide and rapid fluctuations in this commodity during various periods of the year. As I understand, there is also a similar exchange operated in Great Britain?

Mr. HOOVER. At Liverpool.

Mr. YOUNG. A sentiment has grown up in some parts of the country, among men of good judgment, brought about by these rapid fluctuations in a short period of time, that these exchanges have in their present operation become inimical to the cotton producer and consumer both, and if they had their way about it they would destroy both of them. What, in your judgment, would be the effect on cotton should these exchanges be destroyed with the exchange in Liverpool still in existence and in operation, having in mind the

fact that the countries that would operate through that exchange are the countries that consume the raw cotton of our country?

Mr. HOOVER. I think the first effect would be the transfer of all hedging and speculative operations on cotton straightway to Liverpool from the United States. It would make Liverpool the only market for future trading in cotton, and it would place the domination of cotton markets of the world in Liverpool. I should think that would be the first effect.

I have not given sufficient study to that matter to be able to say what the effect of the Liverpool market has been on our local cotton exchanges. There has been, of course, some attempt to regulate cotton futures on our side.

Mr. YOUNG. There is no doubt of that.

Mr. HOOVER. And I think with some success; I do not know how much. I think that the relation of the Liverpool exchange to our exchanges requires very careful study.

Mr. YOUNG. This is a point that my own mind is entirely in doubt about. The European countries in normal times consume 65 per cent of the raw cotton from this country. Naturally those people would want to pay as low a price for cotton as it is possible for them to pay. If our exchanges through which we operate here were destroyed, would not the selfish human nature of the people who control this exchange in the consuming section of the world, that uses this preponderance of our product—would not their tendency naturally be to depress the price paid for this commodity that we produce and they do not produce?

Mr. HOOVER. I think that would be the tendency of it.

Mr. YOUNG. And it would be a very dangerous thing if the sentiment that we find in some parts of the country, looking to the destruction of the two exchanges here, should prevail?

Mr. HOOVER. Yes; so far as my present knowledge goes. That is a point that I think could be advantageously handled by such a marketing board as I suggested—to investigate and study those conditions and see if it is not possible to arrive at certain voluntary arrangements in the American exchanges that will tend to the protection of the American producer.

Mr. YOUNG. I am not thoroughly familiar with the operation of our grain exchanges, but I do know, as a cotton producer, that these wild fluctuations that I witness from day to day in my little cotton market down in Texas are wholly indefensible when they are related back to the actual value of the commodity that has been purchased from the farmer. I have further heard it stated by men that know much more about it than I do that under the present system of operation—of the New York exchange especially—they have what they call "wash sales," and that when they want to manipulate and control the market they do it through these wash sales. Just what that means I do not know. Can you suggest a method by which we could stop transactions of that kind?

Mr. HOOVER. I think those transactions would be generally construed to be a violation of the rules of the exchanges. But, in any event, as a remedy I come back again to the fact that this is a matter of such a complexity that I do not believe anybody could sit down to-day and write a series of regulations that would be effective six

months hence, and that somebody must be able to assume a sort of guardianship of the interests of the producer and the consumer and be able to exercise a certain amount of authority. I do not believe any of us can say what is necessary to remedy such situations out of hand without a certain amount of experiment.

Mr. YOUNG. In other words, you do not believe that this committee or any other set of men could write a hard and fast law that would meet these complex questions as they show up in the market from day to day and from year to year?

Mr. HOOVER. No; because I have great respect for human invention and its ability, on one hand, to solve almost anything after a little experience with it, and, on the other, to evade most regulation. Therefore we must be able to meet new developments from time to time.

Mr. YOUNG. A little aside from this question: You are probably more familiar with European conditions than any other man we have in our Nation. My section of the country is suffering very materially from the fact that they have no normal flow of their products. We have produced in abundance this year, and we can not sell our product at cost of production or half the cost of production. Have you a remedy that you could suggest by which we might meet that situation or alleviate it in any way?

Mr. HOOVER. It seems to me that a statement of the situation almost states the remedy. Here we are in the United States with a vast surplus of food and raw material that we are unable to market from the farms at cost of production. In Europe, on the other hand, there is a vast population living on the lowest standard of living that our generation has witnessed. The world is not suffering from overproduction but from underconsumption in one particular area. That continued underconsumption is due, perhaps, to some political and some social causes; but in the main to economic causes, and the dominant one of these is the inability to secure these materials upon credit. If we could evolve some system of credit by which these commodities could be placed in motion there is an ample market for them, and in time the buyers will recover to a point where they could repay the debt.

Mr. YOUNG. Let me take a concrete case. I will take the commodity that is produced in my part of the country, because I am more familiar with that. Here is Germany, that consumes several million bales of cotton a year from our country in normal times. Now, they are living from hand to mouth, not taking any of this commodity. Do you know whether conditions are such in Germany that if we could evolve this system of credit, or if such a system of credit could be evolved with assurance that an outlet would be given us for cotton, giving them time in which to work it up into the manufactured products, it could be worked out successfully so that we would ultimately be repaid for this raw commodity that we furnish them?

Mr. HOOVER. I believe that is true. I believe that intrinsically it is even more true of other sections of eastern Europe than it is of Germany.

Mr. YOUNG. I just used Germany as an illustration. The whole of Europe is a consumer of this product.

Mr. HOOVER. The German individual and every other individual all through central and eastern Europe is consuming less cotton to-day than ever before in his history, and he has the same desire for cotton consumption that he has had for the last three generations, but nothing except the upbuilding of their economic life will enable them to resume this consumption of cotton. The one important factor in the upbuilding of their economic life is to get their spindles going and their manufactures started in all directions.

I think even a more concrete case of the reflection of their economic situation on America is exhibited in the matter of fats and its reflex on our pork products. I take Germany, because their statistics are more authentic. Before the war, I believe, they consumed something in the neighborhood of 130 grams of fats per diem per capita. At the time of the armistice they were down to a consumption of about 30 grams, and there was practically a collapse in public health and morale. Now, they have gradually crept up until their consumption is about 60 grams.

If the Germans were restored to a normal consumption of fats, our American farmer would be selling his hogs at a fair price, and we would have the same gain in another commodity, paralleling the case which you pointed out with respect to cotton.

Mr. YOUNG. Do you know of any other method of relief of this situation in our export trade, other than the extension of this credit in some form or other?

Mr. HOOVER. I do not. I do not see any other solution to it.

Mr. YOUNG. I believe that is all.

Mr. JACOWAY. Mr. Hoover, what is your idea about evolving a system of credit for Germany? We see it in the press. We hear it from men like you who know these conditions. What plans and specifications would you suggest for a credit system that would enable Germany or Europe to rehabilitate itself, in order that we might get the reflected benefit here?

Mr. HOOVER. So far as Germany itself is concerned, its problems are indissolubly mixed up with this problem of Europe. In the first instance, before Germany can be placed upon the basis of a return to credit and thus to production, the German indemnity must be settled upon some sort of fixed basis. And after that some credit to Germany is vital if we are to dispose of our products. In credit questions I mean all eastern Europe as well.

Mr. JACOWAY. Would those credits be based on confidence or on some kind of collateral from them?

Mr. HOOVER. Some kind of collateral ranking before indemnity is necessary in the German case. I do not believe in the extension of Government credit directly. It has a thousand objections. I do believe it is possible to build up the normal processes of business to produce credit. There is an example in the recent movement for an Edge bank, which was launched yesterday. That is a direct attempt of the mercantile community and the banking and the agricultural community, all three cooperating, to secure a constructive and intelligent extension of commercial credit. I believe that will be of great value in this whole situation.

Mr. YOUNG. You think that holds out hope?

Mr. HOOVER. I think it holds out hope very definitely.

Mr. YOUNG. You think those difficulties can be worked out on a sound basis so as to bring relief?

Mr. HOOVER. I think so.

Mr. JACOWAY. If I understand your testimony correctly, with respect to the future of the exchange, it is that you believe it would be disastrous to abolish them?

Mr. HOOVER. I do.

Mr. JACOWAY. But there are some remedies or some amendments or some policies—that you would, in other words, amend the present policies in order to make them function correctly?

Mr. HOOVER. I would.

Mr. JACOWAY. Mr. Young spoke about cotton. I am directely interested in that. I come from a section of the country where about 900 counties and 30,000 people are directly interested in cotton. Is not the price of cotton or wheat or any other commodity at its lowest when that crop is gathered, as a general rule?

Mr. HOOVER. I would not want to say whether that is true or not without some further inquiry.

Mr. JACOWAY. I gathered from your statement that what the farmers need is warehouse room.

Mr. HOOVER. Yes; in order to place the commodities in such position as to command better credit.

Mr. JACOWAY. That would take care of those commodities in times of glut. Now, the question I was going to ask is this: Are you familiar with the Lever warehouse law as it pertains to cotton?

Mr. HOOVER. No; I must confess I am not.

Mr. JACOWAY. That provides for a Government warehouse receipt that shall be prime commercial paper. I want to ask you if, in your judgment, if the same advantage were taken of it in the wheat market, that would effect a remedy?

Mr. HOOVER. I believe it would stablize the price of wheat very considerably. It would act to protect that group of farmers—perhaps comparatively minor group—who under the present system are compelled to realize on their crop.

Mr. JACOWAY. Would not the ultimate object of that system be to insure a better price to the man who produced the wheat and the man who prduced the cotton?

Mr. HOOVER. Certainly. The entire argument is on that hypothesis.

Mr. MCLAUGHLIN of Nebraska. Mr. Hoover, you stated that during your service as Food Administrator the size of any dealing in corn was limited to 500,000 bushels, I believe. It varied at different times, but at one time it was 500,000 bushels?

Mr. HOOVER. Yes.

Mr. MCLAUGHLIN of Nebraska. You said that a remedy for the possible manipulation of the market and the exchanges would be to limit the size of the transactions. Now, in this administrative board that you suggested in the Department of Agriculture would you incorporate in the law that you have in mind the limit of size of such dealings in the different commodities?

Mr. HOOVER. No; I would leave the precise limit to the board to determine that, based on the exigencies of each case.

Mr. MCLAUGHLIN of Nebraska. Do you think that without specifying any exact number of bushels it would be possible to arrive at a percentage of the entire crop or output of a certain grain that might

be adopted as the maximum amount of any deal that could be consummated?

Mr. HOOVER. I have not thought that through, but my first instinct would be that it would be very difficult, because if you take the crop as a basis, the volume of wheat in the country at any one time is a diminishing factor until you come to the next crop. So if you take a percentage of the crop as a basis it would be all out of line later in the year, would it not?

Mr. MCLAUGHLIN of Nebraska. Yes. Could you make it a percentage of the crop on hand at any particular time?

Mr. HOOVER. I do not know. I would want to think about that a good deal. It is a very complex question. It might work, but I do not know.

Mr. MCLAUGHLIN of Nebraska. You have not arrived at a conclusion as to what percentage of the product on hand dealt in at any one time approaches a manipulation of the market?

Mr. HOOVER. No; and that is just one reason why I think the matter would require careful experiment. For instance, at some periods the plunging of 2,000,000 bushels into the market would probably not materially affect the price; you could have such a volume of trading that that might not do it. At another period 2,000,000 bushels of wheat plunged into the market might affect the price very materially; it might vary from day to day.

Mr. WARD. Do you believe, Mr. Hoover, that if hides and wool were dealt in on a market corresponding to our grain market of to-day it would be beneficial or detrimental to the consumer and the producer?

Mr. HOOVER. My impression is that if we could have a legitimate hedging market for wool it would be an advantage. Hides are very much more of a difficult commodity. I do not want to be put on record as saying that this extension of hedging operations is final, even in my own mind. There are very great advantages in hedging, but there again I think it requires a very exhaustive consideration as to whether we would want to extend the hedging possibilities to other commodities. My own instinct is that it ought to be tried.

Mr. WARD. Do you believe that if there were a similar market for wool to-day there would be a price for wool at this time?

Mr. HOOVER. I am certain that there would be. There is always some point ahead at which men would buy wool to-day if they could have a contract.

Mr. RIDDICK. Mr. Hoover, you have suggested two or three times in your testimony the desirability of exercising some control over manipulators or of preventing manipulation. Will you illustrate just how the market is manipulated and suggest, if you can, ways in which that manipulation might be stopped by legislation?

Mr. HOOVER. We have had two forms of manipulation. One was the old-fashioned corner. That has pretty well disappeared. It has gone out, first, because of the difficulty of consummating it, and secondly, because the growth of business morality has put a large taboo on that kind of operation. We do not have to face those great and dramatic attempts to control the whole commodity; I do not believe we have seen any of them in recent years.

The second form of manipulation and the one that I feel does at times take place, is the making of a drive on the price by either the sale or the purchase of such quantities as will affect the price by the

volume of material coming to the market at that particular time. I would regard those transactions as an attempt to dislocate the normal flow of the law of supply and demand, and any attempt of any individual to dislocate a free market must be against public interest. I feel it is also against the interest of the individual producer, because a drive on the market that depresses the price must find a considerable number of farmers who, through the fall in price and their outstanding obligations, are compelled to liquidate, and they have been done an injury. Incidentally, the commodity has been brought into the market, and an acceleration to depression has been created.

It appears to me that the remedy for that—I will state it again—is to endeavor to arrive from time to time at a limitation of the quantity of what we have chosen here to term purely speculative transactions that may be entered upon by any individual or any firm. That quantity could, I think, be very large and still effect its end. because I believe that the volume of transactions on the board of trade is usually such that no small amount of sales would have any effect.

Mr. RIDDICK. You suggest a commission to look after the trading. You would give that commission authority to tell the boards of trade what they could do and what they could not do?

Mr. HOOVER. I would give it some power of regulation over manipulation. I would also give it what I think is a much more valuable power, and that is the power to enter into voluntary agreements with boards of trade to bring about these ends. Because I believe that a constructive solution of these problems by boards of trade themselves can be effected by voluntary agreement.

I state this on the basis of the experience we had during the war, where after conference and arrangement we often did not have to exert the authority of the law, and on several occasions we secured the incorporation of new rules by the boards of trade themselves for the prevention of practices against public interest in the unusual situation that then existed. These rules are, from the point of view of the development of our own institutions, a better method of procedure than an elaboration of fixed law. They place the institution itself on a constructive basis.

Mr. MCLAUGHLIN of Michigan. Do you know whether or not those new rules which were brought about in that way through your commission have continued in effect, or have they gone back to their old practices on the exchange?

Mr. HOOVER. Some of those rules put into effect are, I believe, still continued. One of the rules that I think was most constructive was in the character of contracts; in establishing contract grades of grain with fixed differentials, altering the contract grade of corn at each harvest, so that it would cover the predominant quality produced in the country.

A number of constructive things of that kind have been maintained, but the rules with regard to the maximum on corn trading have been, I assume, wiped out.

Mr. WILSON. Nearly all boards of trade and exchanges have rules and regulations designed to discourage or stop the cornering of markets, have they not?

Mr. HOOVER. Yes. We must credit the boards of trade with a great desire to eliminate the obnoxious practices in those trades and

the opportunities for manipulation. I think the boards of trade themselves exhibit the growth of the business conscience; by their own actions they have practically eliminated the old-fashioned corner. The question that we are discussing is whether they should not go one step further, a step that I do not regard as one of damage to them, but would give additional protection to the public and confidence in their institutions.

Mr. WILSON. Do you think the present low prices are due to any manipulation of the markets?

Mr. HOOVER. That is a very difficult question to answer. My impression is there have been drives against prices. My mind approaches it from rather a different angle; that is, the fall of prices was probably made more precipitate by these drives against the prices. In the long run the price will make itself on demand and supply, but manipulation of the type we are discussing serves to accelerate what will be inevitable, and the acceleration often works to the disadvantage of the producer.

Mr. RIDDICK. The sharp declines in prices were really brought about, were they not, by organized buying interests in foreign countries—the fact that the buying interests were organized?

Mr. HOOVER. To some extent that was true. This was not an operation on our boards of trade, but they were doing something that had a very material effect.

Mr. RIDDICK. In other words, the fact that English buyers had to buy through the royal commission enabled England to buy wheat of our farmers cheaper than if each man had been buying for himself?

Mr. HOOVER. It enabled the British to keep out of our wheat market for a period of five or six months just at the time that we had the maximum amount to market. It contributed to an artificial fall. If there had been no control of British trading, no doubt the merchant in England would have bought his cargoes in and out every day during that period and our price level would be higher.

Mr. RIDDICK. What do you know, Mr. Hoover, about their doing away with that method of buying and getting back to the prewar method?

Mr. HOOVER. I understand that they are going to abandon it. I might say that just before the Food Administration was dissolved in July, 1919, I had proposed that those combined agencies should be dissolved or alternatively the American control of selling should be maintained as a defense. I think the effect of controlled buying without defense on our side has been very detrimental to our producers.

Mr. RIDDICK. Of course an organized interest has an advantage in buying or selling over an unorganized interest. Have you given any thought to a plan whereby the farmers might be organized through some governmental agency, so that they could meet the organized grain-buying interests?

Mr. HOOVER. I have given a lot of thought to it. Aside from meeting the British combination, I am sorry to say I have not been able to come to any valuable conclusion even in my own estimation.

Mr. RIDDICK. Do you think anything along that line is possible or worth trying?

Mr. HOOVER. I think the farmer's best solution of the problem lies in the development of his local cooperative, the development of his

own local elevator system, his gradual expansion along the lines of normal commercial development in his own mutual interest. I have little faith in any attempt to hold the whole of the wheat harvest and market it by one hand. That is, I do not think there is the ability anywhere to handle such a gigantic operation in competition with all the world surplus of wheat. I am sure that over a course of years it would become a debacle. Sooner or later such a combination would produce an unsalable surplus for all such ideas are premised upon some fixed price stimulative to production.

Mr. RIDDICK. There is a very general feeling that there is too much of a spread between the price the producer receives and the price the consumer has to pay. Have you anything to say as to there being too many middlemen who get a wage far in advance of the value they render the public?

Mr. HOOVER. I think there are numerically too many men in the whole distribution system. I think that can be demonstrated in every branch of distribution. I confess I do not see the solution, except by normal economic pressure.

During the last few years any man who wanted to go into the retail grocery business, for instance, could make a profit. He got a profit from the very fact that he had groceries on the shelf. The result was the number of people in the trades expanded enormously. Now, that we have a decline of prices that number is diminishing with some rapidity.

Mr. RIDDICK. You stated a little while ago, I believe, that wheat going into Duluth would be handled at least four times. Knowing as little as I do about the handling of grain, it would appear to me that that would be at least two or three times more than was necessary.

Mr. HOOVER. You can follow that sequence through. The local elevator man buys his wagonload of wheat from the farmer. That is the first transaction. Then, he hedges it. When he has aggregated a carload he ships it to a dealer at Duluth. He may be acting as the agent, and his hedge may cover the dealer at Duluth, or it may be that it goes to another dealer, who would hedge a second time. This dealer at Duluth may secure a couple of hundred thousand bushels, and this is put together with another 200,000 from another market to make a cargo by a third man who hedges a third time. You may then come to the fourth man, who is the actual shipper in Europe, he may hedge a fourth time. Each one of them in sequence will release their hedge by buying in the future.

Mr. RIDDICK. Mr. Barnes was before the committee the other day and showed us a diagram and figures, to show that the spread between what the consumer paid and what the producer received was very much narrower during the war.

Mr. HOOVER. It was very much narrower.

Mr. RIDDICK. Are there any lessons to be learned from that that could be put into practice now so as to continue that benefit?

Mr. HOOVER. I do not know. I have given a great deal of thought to that, but I am not prepared to say, because during the war it was possible, once you controlled the commodity, to limit the amount that each one received at every step in the distribution. It was not a question of fixing the retail price of flour; it was a question of starting with the wheat, fixing what the flour miller got, what

the jobber got, and what the retailer got each time he handled that commodity, and by a vast amount of effort you were able to reduce the margins. Such measures are justifiable only in a time of practical economic famine, when you may have possible fluctuation in price levels that upset the whole economic stability of a nation.

But I do not believe we shall ever get our marketing development out of an elaboration of those measures. I have felt that a complete freedom of the flow of commodities is the thing most to be desired, and that we should direct our attention to the elimination of obstacles—the manipulation and the minimizing—the speculative risks of the transactions between the farmer and the consumer. I hold the theory, and I think it is sound, that the price that the farmer is to receive aside from manipulation is made at the door of the wholesaler—when the commodity leaves his door for the retailer—and that any cost between the farmer and the wholesaler is a deduction from the farmer's price. I do not wish to take the time to go into that now, but I think it can be demonstrated. Therefore, if we can minimize the risk in handling the grain we can minimize the margin. The best measures to minimize the cost of risk is insurance. I believe that there lies a large area for study in our marketing system to see what can be constructively done to minimize the margin. For instance, I think we can say almost to a certainty that the increase in railway rates on food has come out of the farmer.

Mr. YOUNG. Just the other day there was a gentleman before the committee that gave an instance of a shipment of wheat from some point in Colorado to a foreign market. It went down to the port of Galveston, and there was a freight charge on that wheat to Galveston—the railway freight, to say nothing of the water freight—of 60 cents a bushel. If that came out of the wheat producer in Colorado, I do not see how he is going to survive.

Mr. TINCHER. I do not want to interrupt Mr. Hoover, but I have been requested this morning to correct that gentleman's testimony. He meant to say per hundred instead of per bushel, which makes some difference in his testimony. All the way through he used bushels instead of 100 pounds, and he never noticed it himself, I suppose, until the press carried notices of his testimony.

Mr. RIDDICK. It has been variously estimated, Mr. Hoover, that the turnover of speculators' grain is from 17 to 40 and even a hundred times the actual deliveries. The Federal Trade Commission is investigating that subject, and probably can give us some accurate information on it. If it should develop that the turnover of speculative wheat is, to illustrate, forty times the actual number of bushels, it seems to me there are 40 too many middlemen.

Mr. HOOVER. I should be surprised if it turned out any such number of turnovers as that.

Mr. RIDDICK. What would you suggest as a reasonable ratio?

Mr. HOOVER. Oh, I have not any idea, but my guess at the ratio would be—well, it is foolish to guess at these things; I would rather not.

Mr. RIDDICK. It would be far less than 40, though?

Mr. TINCHER. If you have any fears you can say anywhere between 10 and 100 and have plenty of company.

Mr. RIDDICK. If it should prove to be anywhere between 10 and 40, would you say that this committee ought to find some way to eliminate a number of the men who are dealing in grain that way?

Mr. HOOVER. Well, if it is 40 turnovers I will be utterly astonished, and I will tell you why. There is a certain cost in every turnover. If you will take the farm price of the whole country and convert it into the average flour price on the usual formula of 4½ and deduct from that the milling costs, transportation, storage, interest on plant employed, and the other fixed charges, you will probably find that the margin between suc ha price for flour and the average farm price for wheat is probably not over 5 or 6 cents or even, say, 10 cents a bushel. And you can not have 40 turnovers and do it for 5 or 6 cents unless some speculators are losing money steadily.

Mr. RIDDICK. We have had men before the committee who said that the turnover was not chargeable to the wheat, that it came from other sources.

Mr. HOOVER. There is a certain amount of it, of course, that comes from the "lamb" that enters into the transactions on the boards of trade. He does make a certain contribution to the farmer, but I do not know how much it is.

Mr. RIDDICK. As a matter of fact, most of the turnovers would come off the cost of the wheat, would they not?

Mr. HOOVER. I should think so, although obviously all turnovers do not give either a return or profit to the dealer.

Mr. RIDDICK. Mr. McLaughlin of Michigan asked you something about the stabilizing of the price of wheat, and you just mentioned briefly the fact that the 1917 price was stabilized. Will you be kind enough to state just how it was stabilized and just what the emergency was?

Mr. HOOVER. The emergency was, as it turned out when we came to buy it, that we had 630,000,000 bushels of wheat in the 1917 crop. Our normal consumption for seed and all purposes was approximately 600,000,000 bushels at that time. We were compelled to find 150,000,000 bushels for export. If we had gone into the market, bought that wheat, and exported it during the early part of the season, when the flow was on, with no attempt to control it later, we should have had $35 flour by the month of May, 1918. That is a conclusion that I believe every man who has studied this question has reached.

Mr. RIDDICK. What would the price of wheat have gone to?

Mr. HOOVER. The price of wheat might have gone to $6 or $7 a bushel. If those things had happened we should have lost the stability of our labor irredeemably during the war. There are certain evils that you can not face when you are at the same time facing situations of such desperate character as we were facing in the war.

Mr. JACOWAY. I believe you stated along that line two years ago that if that had happened it would have been the worst thing that could have happened to the farmer?

Mr. HOOVER. I believe it is the worst thing that could have happened to him.

Mr. JACOWAY. And you stated it would have resulted in riots and things of that kind, I believe?

Mr. HOOVER. I do not believe that under the difficulty of our situation we could have maintained order in our cities if the price of bread had been based on $35 flour.

Mr. TINCHER. But if that stabilization did operate—and probably necessarily, by reason of the emergency—to confiscate a certain portion of the then market value of the wheat, do you say that that was of real benefit to the world in general?

Mr. HOOVER. No; we did not confiscate anything. I think it can be shown that the farmer received more than he would have received had these steps not been taken. We set up a commercial engine that operated in the direction of protecting him from an undue low price in the flush marketing season and the consumer from an undue price later in the year.

Mr. TINCHER. Under the law you practically fixed a maximum price of wheat, which was far below the market price at the time the law was passed. Whether you call it confiscation—I am not saying you did not have any right to do it, but whether you call it confiscation or not, it was taking property by a process of law for the benefit of the world at large?

Mr. HOOVER. Well, I could give you a very large legal and economic argument if we had time.

Mr. TINCHER. I am claiming you did not have a legal right to do it.

Mr. HOOVER. I did not want to go into that phase of it, but I would like to mention this, that when it became obvious that there was only one buyer for American wheat abroad, that this buyer had the power to control the price during the heavy marketing season, and that the law called for American Government purchase, we had to arrive at a price basis for all transactions. None of us wished to take the responsibility of determining price, either to the Allies or our own Army, without the approval of the producer, and we called together here in Washington a board composed in the majority of farmers and men representing the various farm associations, and putting the situation up to them, they determined the price.

Mr. RIDDICK. The price they stated was the minimum price, was it not?

Mr. HOOVER. No; they determined the stabilized price, and they also recommended that the price be made stable for the year.

The CHAIRMAN. Have you reference to the commission authorized by the bill?

Mr. HOOVER. No, sir; the commission called by the President.

Mr. MCLAUGHLIN of Michigan. This is the first time I have heard that that board was composed of a majority of farmers.

Mr. HOOVER. It is true.

Mr. TINCHER. The representative from Kansas was Maj. W. L. Brown.

The CHAIRMAN. Was Dr. Ladd, of North Dakota, on it?

Mr. HOOVER. Yes.

The CHAIRMAN. He was not a farmer, was he?

Mr. HOOVER. Dr. Ladd was the head of the agricultural college and was supposed to represent the agricultural interest. The North Dakota farmers have just elected him Senator.

The CHAIRMAN. There is quite a distinction between a farmer and some man that is teaching farming.

Mr. TINCHER. That was the only raw material that it was necessary to confiscate during the war for the purpose of winning the war and for the purpose of taking care of the public, was it not?

Mr. HOOVER. No; there was no confiscation; quite to the contrary, there was protection to the farmer; also the price of practically all the metals was determined the same way—steel, copper, and everything else.

Mr. RIDDICK. Those things were determined by the metal men in conference, largely, were they not?

Mr. HOOVER. In the same sense that the wheat stabilized price was determined by the producer in conference. You can not get them all in.

Mr. RIDDICK. No; of course not. I do not want to contradict you, but as I look over the names of the members of the board to fix the price of wheat, I do not recognize very many as really representative of the producers of wheat.

Mr. HOOVER. I may be a little wrong in saying the majority were actual farmers, but the assumption was that the men who represented the agricultural colleges and agricultural institutions of wheat States were representing the farmers' interests.

Mr. RIDDICK. As a matter of fact, in the State of Montana—which I have the honor to represent—the farmers had a wheat crop just about ready to harvest. Many of their neighbors in the surrounding States received $3 a bushel and a little better. Our harvest came later, and they were compelled to harvest their crop and sell it at $2 a bushel, making a direct contribution of a dollar a bushel as compared with their neighbors. It nearly wrecked a great many of them.

Mr. HOOVER. You want also to bear in mind this fundamental fact with reference to the operations of that year. Unless there had been some stable price in the fall season in the wheat run, they were more likely to get $1 than $3. There was no guaranty for the 1917 crop; the guaranty did not begin to operate until the 1918 crop. There was provision for Government purchase and sale to our Army and Allies. If there had been no stabilized price created by commercial operations, then the condition of shipping and the consolidation of buying on the part of the Allies, the flood of grain at the heavy marketing session, the essential campaign to reduce our own consumption by conservation and substitution, would have brought the price of wheat down far below $3 a bushel, possibly to a dollar a bushel. It might have gone up to $10 a bushel later in the year under uncontrolled shortage, but after the farmer had sold and the increase would have been mostly absorbed by the dealer and manufacturer. It is my complete belief that in any dispassionate comparison or study of that operation you will find the farmer was saved from just the combination of foreign buyers he is now complaining of and that the average obtained by the farmer that year was not only cost and a very large profit but a better price than he would have obtained if there had been no operation undertaken, even ignoring the many other factors in the situation.

Mr. VOIGT. Mr. Hoover, suppose a law were passed limiting any individual or any interest to the speculative maneuver of, say, 2,000,000 bushels at one time. Can you see that that would hurt anybody?

Mr. HOOVER. I can not believe that it would hurt anybody, but it might not be the best way to handle it.

Mr. VOIGT. Why would not that be a wise measure in order to prevent manipulation?

Mr. HOOVER. That is the line that I am suggesting.

Mr. VOIGT. You also stated that it might be better to leave that to the initiative of the grain exchanges?

Mr. HOOVER. No; I suggested that it be left to the control of some authority that is able, if possible, to make a cooperative arrangement with the grain exchanges to effect that end, not to leave it to their initiative.

Mr. VOIGT. Suppose we create no such agency, but simply pass a law prohibiting any person or any interest from having outstanding at any one time a speculative interest exceeding, say, 2,000,000 bushels. Would not that prevent manipulation of the market?

Mr. HOOVER. It might. There might be some occasions when the amount of trading was so small that 2,000,000 bushels of a speculative transaction directed to influence the price would be overpowering in the market.

Mr. VOIGT. Can you conceive of a trade of 2,000,000 bushels by any individual in the Chicago market by selling futures that would seriously affect the market?

Mr. HOOVER. I should think it actually possible for 2,000,000 bushels in one day to effect the market on some days. Generally speaking, I do not think that 2,000,000 bushels would enable anyone to affect the price. All I am contending is that there is probably no definite figure that could be arrived at by a discussion in these rooms that would be flexible at all times and under all conditions.

Mr. VOIGT. That may be true, but if you had a rigid law preventing any interest from exceeding the limit of 2,000,000 bushels in a purely speculative venture we might do some good, and we could not possibly do any harm. Is not that true?

Mr. HOOVER. I presume it would do some good.

Mr. WILSON. Suppose, though, there were several operations of 2,000,000 bushels.

Mr. VOIGT. I can conceive, of course, that a dozen men might go in and load up to the limit, but I do not think that the history of corners in the market has been that a great many people have taken part in them.

Mr. LESHER. Just one question, Mr. Hoover. After all, it narrows itself down to the question of supply and demand, does it not, to a certain extent?

Mr. HOOVER. To have a market free from interference.

Mr. LESHER. The cold-storage plants are taking up the slack in perishable articles, are they not?

Mr. HOOVER. They are.

Mr. LESHER. Now, if we had some system of credit to be extended by the banks to take up the slack, would not that be all we would need?

Mr. HOOVER. I think that would be very helpful. I would not want to say that that is all we need.

Mr. LESHER. It would be helpful to take up this slack, the same as the cold-storage plants?

Mr. HOOVER. It certainly would.

Mr. LESHER. And be a benefit to the consumer as well as the producer?

Mr. HOOVER. I believe it benefits both sides to stabilize the price.

The CHAIRMAN. Mr. Hoover, I understood you to say that the limit fixed at the suggestion of the Food Administration, fixing it at 200,000 bushels of corn in excess of the hedging, worked out successfully? You stated 500,000. I have looked it up, and the limit was 200,000.

Mr. HOOVER. I believe that worked out successfully. I do not want to state that finally; I should think that ought to be a matter of close study, as to what actually happened under it, in view of the light that can be brought to bear on it. Certainly during the time it was in operation it effected the end we desired; it prevented anyone manipulating that market, and the market on corn was a very stable market.

The CHAIRMAN. As I understood you, it worked out very satisfactorily under the Department of Agriculture. Suppose that some limit be fixed—200,000 bushels might be high enough—with some discretion given to the Secretary to increase or decrease it. What would you think of that?

Mr. HOOVER. That is the suggestion I have been making to you, except I added it should be done by a board.

The CHAIRMAN. I understood you to say that that worked successfully, but you rather suggested a commission or a board under the Secretary.

Mr. HOOVER. Yes; and I suggested a board because I believe there are many other problems here that could be solved as well. There is this problem that has just been mentioned of the extension of credit by the elaboration of storage facilities for the farmer. There are a dozen problems in marketing that need investigation and constructive handling.

The CHAIRMAN. But, after all, Congress should legislate so far as possible. Of course, there are some matters that it is necessary to leave to the discretion of the department.

Mr. HOOVER. Certainly; but Congress also needs the benefit of the most careful and exhaustive study of these questions, which would be the function of such a commission.

The CHAIRMAN. For instance, limiting the number of grades deliverable on a contract. Where the limitation should be placed and also the number of grades deliverable should be easily determined. What is your opinion about limiting the number of grades deliverable on a contract?

Mr. HOOVER. I should not like to pass on that, because it seems to me that is going to vary from year to year. The grading question is one of extreme complexity, and it depends in great degree upon the character of the crop. If we have some flexible system we would get much more constructive results than by an attempt to sit down to-day and agreeing what the grades of wheat are to be for the next 10 years.

The CHAIRMAN. If you limit the grades to a certain class——

Mr. HOOVER. Of course, one way of securing freedom of the market would be by a decrease, if possible, in the number of grades.

The CHAIRMAN. It is just a question of whether you are going to hedge where you have confidence in the exchange in fixing the num-

ber of grades and their reasonable differences in value. One suggestion is to limit the number of grades. Another is that there shall be commercial differences or fixed differences. What is your opinion?

Mr. HOOVER. I would think there should be commercial differences.

The CHAIRMAN. Under the present rule there are no commercial differences and there is no consideration given to commercial differences. They are all fixed differences.

Mr. HOOVER. Yes; they are fixed differences, but fixed upon commercial experience and with a vast complex of premiums.

The CHAIRMAN. Yes; with a variation of premiums.

Mr. HOOVER. Yes.

The CHAIRMAN. For instance, in one exchange the variation is 8 cents between No. 3 and No. 2, and in others only 5 cents. You are in favor of commercial differences?

Mr. HOOVER. Well, a commercial difference may be effected by a fixed difference in the contract and, at the same time, a free dealing in premiums. These are questions of such extreme complexity and technical character that I am not prepared to express a view on them with much more exhaustive information.

Mr. YOUNG. In the cotton-futures act we adopted 10 deliverable grades, 5 above middling and 5 below middling; but cotton is probably a little different from the grain business. With cotton it has worked fairly well. In some of the hearings we have had here it was disclosed that within these 10 grades came the volume of the really spinnable commercial cotton, and we made those 10 grades the range through which we would deliver. That has worked fairly well.

The CHAIRMAN. Are you aware of the fact that in Chicago 24 grades are deliverable on a contract; in Minneapolis, 1; Kansas City, 9; and St. Louis, 12?

Mr. HOOVER. I did not know what the respective numbers were; I knew they varied.

The CHAIRMAN. Do you not think there should be a uniform limitation?

Mr. HOOVER. I think it is very desirable that there should be uniform limitations?

The CHAIRMAN. Have you any suggestion as to the Bureau of Markets functioning as an agent of the producer or of the consumer?

Mr. HOOVER. Do you mean in actually selling the commodities?

The CHAIRMAN. At present its functions seem to be limited largely to giving reports, disseminating information, etc.

Mr. HOOVER. I should think that that would be a large part of its functions, unless it could be expanded to undertake the work I have been suggesting.

The CHAIRMAN. I was not exactly clear how far you would go in your suggestion.

Mr. HOOVER. I am suggesting here that we need a national marketing board, the administrative branch of which would probably be the Bureau of Markets; that board to have some authority with respect to the regulation of exchanges and warehousing, with a view to producing, constructively, a diminution in the margins that now lie between the producer and the consumer. It is an extremely com-

plex problem, and one that I believe, if given serious study and attention, would go far toward remedying the situation in some part by regulation and in a large measure by cooperation with the trades themselves.

The CHAIRMAN. To the extent of acting as agents, as commission men do now?

Mr. HOOVER. No; not at all. Take the question you raised here of the different numbers of grades traded in on the different boards of trade. If we had some constructive agency of that kind, they probably could bring about an agreement between the boards of trade as to their grading, the character of their contracts, the numbers of their grades, and all that sort of thing, all of which tends constructively toward cheapening the marketing of products.

The CHAIRMAN. Then you would be in favor of a bill giving the Secretary of Agriculture the right to promulgate rules and regulations?

Mr. HOOVER. Yes; within moderate limits. I would not give him the power to take possession of the entire trading machinery of the country.

Mr. JACOWAY. One of the great troubles is this, that a man who has something to sell does not always know where he can sell that commodity, is it not?

Mr. HOOVER. Yes.

Mr. JACOWAY. I want to ask you, then, with respect to perishable stuff, if you do not think it would be the function of the Federal Government to appropriate a liberal amount of money for telegraph tolls and let the man who wants to buy pay the toll one way and the Government pay it back the other way?

Mr. HOOVER. I think extensive dissemination of information on these matters is good, but I do not want to give snap judgments on particular methods.

Mr. JACOWAY. You have got to do it quickly on perishables.

Mr. HOOVER. But I would not go to the extent of buying these perishables from the producer.

Mr. JACOWAY. Oh, no.

Mr. HOOVER. I think we do need a much wider dissemination of information as to prices.

The CHAIRMAN. My understanding is that the Bureau of Markets is doing practically what you are suggesting as to the dissemination of knowledge.

Mr. HOOVER. The suggestion was that they were to enter into a more liberal distribution of information.

The CHAIRMAN. That is what I would like to have your opinion about—as to the extent to which it should be carried. Would not the next step be to act as agent?

Mr. HOOVER. No. Then you put the Government into the business of buying and selling commodities.

The CHAIRMAN. Could you not give them that service gratuitously or at a fixed price? It has been suggested that the Federal Government should establish an exchange, operating exactly as the exchanges are operating now—that is, a cash exchange.

Mr. HOOVER. Of course, my instinct is against the Federal Government going into any business, and I would include that in the same category.

Mr. McLAUGHLIN of Michigan. It is suggested that the length of the hedge be limited with respect to the speculative buyer or seller. What do you think of that?

Mr. HOOVER. My feeling is that it ought to be lengthened and not shortened. The further you can see ahead in the market the better, and if it were shortened it would mean a repetition of these operations periodically. If a man is limited to two months, then at the end of two months he must sell for another two months ahead, and you just double the amount of trading.

The CHAIRMAN. In fixing grades by the department should they be fixed for a definite term, covering the period of marketing of that particular crop?

Mr. HOOVER. I am told that there is a particular difficulty in wheat; that it requires two months at least after the crop to get an appreciation of the relative value of the different wheats from a flour point of view, which is naturally the final index of value.

The CHAIRMAN. And, after all, that works an injustice to the one that sells before the actual grades are ascertained?

Mr. HOOVER. Yes. It is only slowly that the premiums on certain wheats, due to their extra flour value, are ascertained with the knowledge that the flour miller gains as to the importance of one wheat over another. That can not take place overnight, and when it comes to the question of fixing a contract for a certain grade of wheat that item alone would present considerable difficulty.

The CHAIRMAN. It is being done now, but only for a limited time. The contention is that it should be made for the year, or at least long enough to cover the marketing of that year's crop.

Mr. HOOVER. I do not feel myself capable of answering that question any more than to suggest some of the troubles that might result and a commission to determine solutions.

The CHAIRMAN. We are very grateful to you indeed, Mr. Hoover.

Mr. JACOWAY. Mr. Chairman, A. W. Graham, who represented the cotton futures board, has a list of transactions on the New York exchange for a given period of time. Before the hearings are closed I want to ask the consent of the committee that that be put in the record.

The CHAIRMAN. Without objection, it will be so ordered.

Consolidated statement of transactions on the New York and New Orleans cotton exchanges from July 1, 1917, to June 30, 1918.

	Brought forward July 1, 1918, long.	Transactions.	Total.	Spots delivered.	Settlements.							
					Notices passed.	Clearing association.	Rings.	Matched trades.	Direct.	Pass-outs.	Total.	Open June 30, 1918.
New York Cotton Exchange	4,264	681,541	685,805	1,213	1,426	615,041	.....	2,176	21,614	39,731	681,201	4,604
New Orleans Cotton Exchange	1,957	438,429	440,386	862	910	.....	97,276	.....	338,924	88	438,060	2,326
Total	6,221	1,119,970	1,126,191	2,075	2,336	615,041	97,276	2,176	361,538	39,819	1,119,261	6,930

The figures above represent contracts of 100 bales each.

Total bales sold on New York and New Orleans cotton exchanges 111,997,000

Total bales raised in United States, 1917 11,300,254

Statement showing bales of cotton raised in the United States in 1914–15 to 1917–18, inclusive—Average price per pound, gross values, bales sold on cotton exchanges for future delivery, and gross value of same.

Year.	Cotton raised in United States.		Average price (cents).	Gross value.	Sales, New York Cotton Exchange.		Sales, New Orleans Cotton Exchange.		Total, gross value.
	Bales.	Pounds.			Bales.	Gross value.	Bales.	Gross value.	
1914–15	15,205,840	7,953,920,000	7.91	$629,155,072.00	13,676,000	$5,540,885,800.00	5,285,300	$208,083,615.00	$748,919,415.00
1915–16	11,068,173	5,534,086,500	11.99	663,536,976.35	14,869,500	2,510,076,575.00	23,620,500	1,316,048,975.00	3,816,125,550.00
1916–17	11,363,915	5,681,957,500	18.41	1,046,048,375.75	90,389,100	8,320,316,655.00	54,374,400	4,905,163,570.00	13,225,480,225.00
1917–18	11,300,254	5,650,127,000	28.86	1,630,626,652.20	68,154,100	9,834,634,430.00	43,842,900	6,326,530,430.00	16,161,164,860.00

Prices furnished by the Department of Agriculture.
Sales from February 1 to June 30, 1915.

A. W. GRAHAM,
Former United States Cotton Futures Attorney.

Mr. TINCHER. Mr. Wilson, or some other member of the committee, said they wanted to ask some more questions of Mr. Moses, whose statement was presented here the other day. I have had Mr. Moses come here to answer any questions that may be asked. He read his statement over and was satisfied with his views as expressed in his statement, but he is perfectly willing to come before the committee at this time and answer any questions that any Member of Congress wants to ask him.

The CHAIRMAN. What is the pleasure of the committee? [No response.] Is Mr. Baer, of North Dakota, in the room? [No response.] We will hear Mr. Moses.

Mr. TINCHER. His statement is in the record. If there are no questions I assume that will be sufficient.

Mr. Chairman, I want to put another matter in the record before we close these hearings. I think it is a mere inadvertence. However, I think the record should be corrected. Mr. Hargis, of Kansas City, was testifying the other day, and he gave the freight rate on wheat from Wichita, Kans., to the Gulf. I have been requested, since that has been published, to put this statement in the record. He was mistaken in saying that the rate in prewar times was 25 cents per hundred or 15 cents per bushel at Wichita, Kans. It is now 13½ cents per hundred, or 30 cents per bushel, and not 50 cents per bushel as stated by Mr. Hargis. I do not think Mr. Hargis meant to make a misstatement, but I think he inadvertently used the word "bushel."

Mr. WILSON. Why does not he appear and correct his testimony?

Mr. TINCHER. This is not from Mr. Hargis; this is from a man that happened to notice the report of his statement in the press.

The CHAIRMAN. I have a telegram here from Mr. Charles A. Brand, former Chief of the Bureau of Markets. Without objection, it will be inserted in the record.

(The telegram submitted by the chairman is here printed in full, as follows:)

CHICAGO, ILL., *January 19, 1921.*

Hon. GILBERT N. HAUGEN,
Chairman Committee on Agriculture,
House of Representatives:

Learned from Hoover hearings progressing your grain futures bill; have seen only summary and comments public press. Always have and still favor reasonable regulation, but fear proposed limitation upon amount speculative interest outstanding permitted any one person so small that will make future market so narrow under many conditions as seriously to depreciate value for necessary and legitimate hedging purposes. The proper functioning of speculation is so important to grain marketing that I earnestly recommend making certain that maximum limit finally fixed is high enough to make certain future markets will not be crippled and made readily susceptible to improper manipulation. Provision requiring reports will provide greatest opportunity for corrective action.

CHARLES J. BRAND.

(Thereupon the committee adjourned.)

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, January 25, 1921.

The committee assembled at 10.30 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee has been called this morning to further consider the question of future trading.

We will first hear from Mr. Thorne.

Will you kindly give your full name, Mr. Thorne, and state whom you represent.

STATEMENT OF MR. CLIFFORD THORNE, CHICAGO, ILL., GENERAL COUNSEL AMERICAN FARM BUREAU FEDERATION AND FOR THE FARMERS' NATIONAL GRAIN DEALERS' ASSOCIATION.

Mr. THORNE. My name is Clifford Thorne; residence, Chicago, Ill. I am general counsel for the American Farm Bureau Federation, an organization of some million and a quarter farmers, and general counsel for the Farmers' National Grain Dealers' Association, representing something like 300,000 farmers, who own and operate their own cooperative elevators in mid-western States.

It is with considerable hesitation, Mr. Chairman and gentlemen of the committee, that I attempt to discuss the measures pending before this committee, after you have heard from such distinguished grain experts as Mr. Barnes, Mr. Gates, and others. However, there are a few facts and suggestions that may be of some slight interest to you.

I do not ask you gentlemen to take my personal word as to the accuracy of these statements. I am not a grain man; I never operated on a grain exchange; I never bought or sold a future, or a bushel of grain on any market.

However, I will endeavor to cite the authorities for my statements. I have gathered a few facts which I want to present to you, using as my authorities chiefly the reports and publications of men on the grain exchanges themselves. There are also one or two legal propositions that I want to discuss briefly with the committee. If I could be permitted to complete my statement first, before being examined or questioned upon it by the members of the committee, it might facilitate matters; I think there would be answers later on to questions that otherwise might be asked by the committee.

The CHAIRMAN. If you prefer that course it will be followed.

Mr. THORNE. There are two distinct functions being performed by the Chicago Board of Trade: First, the legitimate merchandising of grain; and, second, speculation in futures. Chicago is the greatest grain market in the world. The farmer has no desire to injure or to interfere with this portion of the activities on the Chicago Board of Trade. As a common meeting point for the buyers and sellers of grain, this institution is performing a great service.

Whatever I might say hereafter, I desire that distinctly understood, that we are not opposing the board of trade as to those activities. Our markets will be directed chiefly to the second class of activities mentioned above. We will endeavor to present authoritative facts to this committee in regard to the character of their trades in futures; whether they can be legitimately described as bona fide in-

vestments or gambling; as to the real volume of the speculative transactions in futures compared to the actual purchases and sales of grain; and, lastly, we will undertake to suggest some remedies for the situation as we find it, and certain possible modifications of the measures now under consideration by the committee. We shall undertake the hazardous task of defining gambling and speculation, stating the distinct characteristics that differentiate one from the other.

We have been much interested in glancing over the testimony of Mr. L. F. Gates, former president of the Chicago Board of Trade, in his attempt to distinguish between speculation and gambling. Mr. Gates stated to you:

> Speculation is the assumption of an existing risk; gambling is an assumption of a risk that is self-created.

Applying to Mr. Gates's test, we assume he means that a person who bets on the flip of a coin is gambling, because he creates the risk, but a person who bets on the rise or fall in the prices of grain is not gambling, because that is a risk which he has not created. In the same way I presume a man who is betting on a baseball game or a horse race is not gambling, because he did not create the risk. A man who bets on the weather next summer or the result of an election is not gambling, because that is a risk that necessarily exists and is not created by the man making the wager.

We can not accept such a definition, and we do not believe that you will do so. The intent is all-controlling. It is exceedingly difficult to draw the exact line of demarcation between night and day, but we all admit that there is an important difference between the two, legally and actually. Sometimes it is hard to determine whether a given transaction can be legitimately called speculation, investment, or gambling. They merge into each other. I shall undertake to frame a definition for these terms that will draw that line hard and fast whenever you gentlemen can tell me the exact hour and minute when night becomes day, when a pup becomes a dog, a kitten a cat, a pig a hog, or a politician a statesman.

However, I shall venture to make a definition or two that may be of some slight assistance in our presentation.

Gambling is wagering money or something else of value upon a future contingency, without any bona fide intent to buy or sell any actual property or service of value.

Speculation is an investment or agreement to invest in a commodity or other thing of value, which investment or agreement to invest is ordinarily considered to be fraught with considerable hazard.

The distinction between speculation or investment and gambling is the intent. As applied to the sales of grain, for example, if A agrees to sell B 5,000 bushels of grain to be delivered 60 days from date, and there is a bona fide intention to deliver the same, the transaction is not gambling. This is true even though later A may change his mind and settle upon some other agreed basis.

However, if A agrees to sell 5,000 bushels of grain to B, to be delivered 60 days from date, and there is no real intention upon the part of either man to deliver or to receive the grain, but rather that the contract shall be settled between them upon the payment of the

difference between the contract and market prices on or before the delivery date, that transaction is gambling.

The contract may be precisely the same in form in both cases, and yet in one case the transaction is a legitimate business deal, while the other is gambling pure and simple, and so described by the Supreme Court.

There is nothing remarkable about that difference. If I place a gun to my shoulder, pull the trigger and fire it, killing some other person, that may be murder or it may not be murder, according to the intent. Sometimes it is difficult to prove intent; under other circumstances intent will be presumed.

On the futures market of the Chicago Board of Trade there are approximately 18,000,000,000 bushels of grain bought and sold annually, and approximately 50 per cent of these, or 9,000,000,000 bushels, consists of wheat. The figures just stated are based on the reports to the Internal Revenue Department, assuming that the members of the exchange paid a tax upon all transactions subject to the tax, as computed and reported by the Federal Trade Commission in a recent issue, volume 5, of their report, and certain other data which I will present in detail later.

The estimate just stated is less than that made by Mr. Gates previous to the publication of the commission's report, his estimate giving a total volume of 20,000,000,000 bushels, 10,000,000,000 of which consisted of wheat transactions.

Approximately 325,000,000 bushels of grain are shipped into the Chicago market, taking the average for the five years from 1914 to 1918, inclusive.

The CHAIRMAN. The figures that you gave for the total grain trading on the Chicago market are 18,000,000,000 bushels?

Mr. THORNE. Eighteen billions, yes, sir; and the amount of grain shipped into the Chicago market is 325,000,000 bushels. Using the figures for approximately the same 5-year period, the number of bushels of grain dealt in on the futures market of Chicago is 51 times as great as the number of bushels actually received at the market.

The number of bushels of wheat raised in the entire world during the past five years, according to official reports, has averaged 2,84[illegible] bushels. In other words, the number of bushels dealt in on the futures market at the Chicago wheat pit—just a little bit of space, with a few steps, and with a hundred or so of men in it—the number of bushels dealt in on the futures market at the Chicago wheat pit is over three times as great as the total production of wheat in the entire world.

According to the decisions of the courts, if a man makes a contract to sell 5,000 bushels of wheat to be delivered at some future date and does not intend to make delivery, that is a gambling transaction. It now becomes of interest to ascertain how many bushels of grain under the rules of the Chicago Board of Trade are available for delivery on contracts consummated on the futures market of the Chicago Board of Trade.

Please remember, in this connection, that the Chicago Board of Trade has certain rules as to what can be accepted as deliveries, being the grain in regular warehouses, in addition to the grain which is carried on the car tracks during the last three days of the delivery

month. Mr. Barnes has recently attempted to broaden that, so that they could include deliveries anywhere in the world. But under the existing rules, gentlemen, the grain is limited in character that can be delivered on these future contracts.

We have attempted to make an estimate of how much would be available for delivery. I think this is the first time that an estimate has been computed; there have been many generalizations in regard to it.

Please remember the significance of what I am now trying to describe. It is whether an intent existed in the mind of the man making the futures contracts. Now, if, as a matter of fact, he does not deliver, does not expect to deliver, does not want to deliver, and the man receiving it does not expect to receive it—and in 99 cases out of 100, does not receive it—can we still say that he intended to deliver?

The intent being controlling, I want you to notice the language used by Mr. Barnes before this committee:

> There are no deliveries any longer on exchange contracts, except the potentiality which exists that in case of need deliveries will be made.

That language appears at page 1982 of your record.

Then again, in the report of the Federal Trade Commission, page 163, of volume 5, of their report on the grain trade, being entitled, "Future trading operations in grain," we find the following:

> Under circumstances other than those surrounding the present highly developed operations of future trading, the margin might be regarded as a part of the payment of the purchase price of the property. In stocks, it is often just that. In order that this view may be applicable to grain, however, the customer must be buying the future as a means of getting the grain. Instances where this occurs are almost unknown, or are almost all due to abnormal conditions.

We have computed the actual grain available for delivery under the rules of the Chicago Board of Trade during five years. Then we have compared that with the number of bushels dealt in on the futures market; and we find that the total number of bushels available for delivery on futures contracts amounts to less than 28/100 of 1 per cent of the number of bushels sold on the futures market.

Now, some of that grain may be sold two or three or more times by the transfer of warehouse receipts. That would modify the statement made, so far as the contracts are concerned. It does not modify the accuracy of the statement just made. In over 99 per cent of the transactions no deliveries are made; in over 99 per cent of the transactions on the Chicago futures market they do not expect to make delivery of the actual grain.

Can you still say that they intend to make deliveries? That raises a very nice legal point. Some have attempted to make this distinction: That because you agree to deliver, and because in one chance out of a hundred you do deliver, you therefore contemplate delivery; in other words, because you may deliver in one case out of a hundred, therefore you intend to deliver. Although you do not expect to deliver, although you do not want to deliver, yet you really intend to do it.

That would be something like saying the following: According to the actuary tables you and I have about two or three chances out of a hundred of dying during the coming year. Now, not one of us

wants to die; not one of us expects to die; and the probabilities are that we will not die. And yet, according to that line of reasoning, each one of us intends to die.

The legal writer for the Federal Trade Commission has expressed it in this way:

> The intent to deliver on a future contract does not presuppose a specific expectation to deliver.

In other words, I may intend to do a thing that I do not expect to do.

Again, he has phrased it in this way:

> Contemplated delivery means that delivery is in the mind of the person who enters into the contract, not as an outcome exclusively expected but as one of the possibilities and as a practicable alternative to closing the contract in the pit settlement by offsetting the payment of differences may be contemplated at the same time that delivery is contemplated; that is, delivery need be but one of the alternatives in mind. Only a small percentage of future trades are made with delivery intended or contemplated except in this broad sense. But the law is satisfied with evidence of this condition as proving intention to deliver, and grain interests claim that the business interests of the futures contract requires just such an interpretation.

If I had a Gatling gun on a busy street corner of New York City and should fire it, at the same time revolving the gun on a pivot so that it would kill in about ninety-nine cases out of a hundred, I wonder if I could persuade an average jury to believe that I did not intend to kill anybody, because in one chance out of a hundred I would not?

Some attorneys and some courts have taken the position that the ratio of actual deliveries to future contracts not accompanied by delivery is unimportant. It seems to me that it is very important. That is the rule of reasonable expectation. If I perform an act which may reasonably be expected to produce a certain result, I am responsible for that result.

On this issue the courts have differed. In Board of Trade *v.* Odell Commission Co. (115 Fed. Rep., 574) the court held that transactions on the Chicago Board of Trade were largely made without any bona fide intention of making delivery. The court said that:

> Bucket shops are the offspring of the Chicago Board of Trade and kindred organizations, to which they still look for sustenance and life, and they can only be effectually suppressed by striking at the root of the evil. When the species of gambling on the commercial and stock exchanges of the country disappear, the bucket shops will disappear, and not before.

In Board of Trade *v.* Donovan Commercial Co. (121 Fed. Rep., 1012) the court said:

> I am satisfied by the proof that a very large per cent of the so-called [illegible] for "future delivery" which furnish the basis of the quotations in question [illegible] mere gambling transactions involving no purpose on the part of the seller [illegible] deliver and no purpose on the part of the buyer to receive the subject of the sale. * * * the proof shows that largely over 90 per cent of all the transactions in the "pits" which alone determine the "continuous quotations" which are sent out over the country are, in fact, closed out by settlement of differences and that actual deliveries of the article bought or sold are rarely [illegible] made.

In Christie Grain & Stock Co. *v.* Chicago Board of Trade, the circuit court of appeals, consisting of Circuit Judges Sanborn and Van Devanter and District Judge Shiras, held as follows, Justice Shiras writing the opinion:

The estimates of the witnesses vary as to the percentage of the transactions in which actual delivery was contemplated or had, running from 1 to 15 per cent, thus proving that at least 85 and more probably 95 per cent of the transactions would come under the condemnation of the Illinois statute. We do not deem it necessary to set forth the details of this testimony, which can be found in the opinion of Judge Thompson in the case of The Board of Trade of the City of Chicago *v.* O'Dell Commission Co. (C. C., 115 Fed., 574). In that case, and in Board of Trade *v.* Donovan Commission Co. (C. C., 121 Fed., 1012), upon consideration of substantially the same evidence submitted in this case, the conclusion was reached that over 90 per cent of the transactions had on the floor of the exchange hall, maintained by the Chicago Board of Trade, were purely gambling transactions.

It is thus proven beyond all reasonable question that the Chicago Board of Trade maintains, in the building owned by it in the city of Chicago, a place known as the "Exchange Hall," wherein the members of the board, acting for themselves, and also as brokers for outside parties, engage in making and carrying through deals in grain and provisions, in which it is not intended to make a future delivery of the article nominally dealt in, but which are to be settled by the payment of money only according to the fluctuations of the market and which are in all essentials gambling transactions.

The Supreme Court of the United States, in Embrey *v.* Jemison (131 U. S., 336), had under consideration a contract for the sale of cotton on the basis of one party paying to the other party only "the difference between the contract price and the market price of said cotton futures, according to the fluctuations in the market." The Supreme Court said:

If this be not a wager contract, under the guise of a contract of sale, it would be difficult to imagine one that would be of that character.

I want you to notice this language especially, because of the claim that the form of the contract changes the character of the transaction. The court said: "If this be not a wager contract, under the guise of a contract of sale, it would be difficult to imagine one that would be of that character. The mere form of a transaction is of little consequence. If it were, the statute against wagers could be easily evaded."

Benjamin on Sales has the following comment concerning trades in futures:

Such a contract "is only valid where the parties really intend and agree that the goods are to be delivered to the seller and the price to be paid by the buyer. If under the guise of such a contract the real intent be merely to speculate in the rise or fall of prices, and the goods are not to be delivered, but one party is to pay to the other the difference between the contract price and the market price at the date fixed for executing the contract, then the whole transaction constitutes nothing more than a wager and is null and void under the statute."

This doctrine was approved by the United States Supreme Court in Irwin *v.* Williard (110 U. S. 409, 508, 510):

It makes no difference that a debt or wager is made to assume the form of a contract. Gambling is none the less such because it is carried on in the form or guise of legitimate trade.

The Christie case cited above was reversed by the Supreme Court of the United States in a decision reported in 198 United States 236, the issue being the property right in the quotations on the exchange. The Supreme Court distinguished between purchases made with the understanding that the contract will be settled by paying the

difference between the contract and the market price at a certain time and the facts involved in that proceeding, the court holding that purchases just described stand on a different ground from purchases "made merely with the expectation that they will be satisfied by set off." The court said there are two methods of settlement on the exchange: First, by the direct method, in setting off contracts to buy against contracts to sell and paying the differences, and, second, the ring settlement, which is "simply a more complex case of the same kind."

Please remember that the transactions are settled by the payment of differences in both cases; and yet the court draws the distinction. The gist of the decision was that a set off has all the effects of a delivery without any physical handling of the grain.

The description by the coutr of a ring settlement might be worth reading:

> If A has sold to B 5,000 bushels of May wheat, and B has sold the same amount to C, and C to D, and D to A, substituting D for B, by novation, A's sale can be set off against his purchase, on simply paying the difference in price.

It must be distinctly remembered that in this case the court was considering—not contracts between speculators outside of the market—it was only considering the contracts made in the pits, because in them the members are principals. The court said:

> The subsidiary rights of their employers, where the members buy as brokers, we think it is unnecessary to discuss.

The court further said in that case:

> It appears that in not less than three-quarters of the transactions in the grain pit there is no physical handing over of any grain.

Further, the court said:

> In the view which we take the proportion of the dealings in the pit which are settled in this way throws no light on the question of serious dealings for legitimate business purposes to those which can fairly be classed as wagers or pretended contracts.
>
> No more does the fact that the contracts not disposed of call for many times the total receipts of grain in Chicago. The fact that they can be and are set off explains the possibility, which is no more wonderful than the enormous disproportion between the currency of the country and contracts for the payment of money, many of which are in like manner set off in clearing houses without anyone dreaming that they are not paid, and for the rest of which the same money suffices in succession, the less being needed the more rapid the circulation is.

Of course, that reasoning assumes that the clearings in banks in a community are analyogous to the clearances on the board of trade. There is one distinction of fact—not of law—that you should remember: In the case of the clearances in the banks in a local community, the transactions between the original parties (just consider this a moment—those are the transactions which the court said it was not considering in this case) back of every one of those clearances, or payments of cash between banks at the close of the day, there are innumerable transactions, and in each one of those transactions—in practically all—there is a bona fide, genuine, transfer of a commodity or other thing of value, for a check, or other thng of value; while in the case of the Chicago Board of Trade, in practi

cally all of those future contracts cleared there is no exchange of any commodity or anything else of value except the payment of differences in the profit-and-loss account.

It might be of interest for you gentlemen to know, if you do not already know, that that decision by the Supreme Court was by a divided court; Mr. Justice Harlan, Mr. Justice Brewer, and Mr. Justice Day dissented.

That must be accepted as the law. However, there is one difference: You gentlemen are making the law. The Supreme Court is supposed to interpret the law; they make some through judicial decisions.

In the light of the decision of the Supreme Court in the Christie case the transactions on the Chicago Board of Trade, so far as the members of the exchange are concerned, are not gambling transactions even though the members do not expect to deliver any grain, but do expect to set off purchases against sales, and then make payment of the differences.

If these gentlemen intend to settle their contracts for the sale of grain by the payment of differences between the market price and the contract price the transaction is gambling, according to the decisions of our Supreme Court; but if, on the other hand, they do not intend to settle by the payment of differences they are valid transactions. If we call these set-offs instead of payments of differences, the transaction is immediately transformed from an invalid gamble to a legal trade, chiefly by the use of legal phraseology.

"The intent to deliver on a future contract does not presuppose a specific expectation to deliver." I have given you that quotation previously.

I think it is a fair deduction from the facts which I have presented that the great bulk of transactions on the futures market of Chicago have all the essence of gambling. In stating this I have said nothing more than what several courts have declared to be true, and in the Supreme Court case, from which I have just read, there was a divided court.

Now, let us consider the real size and importance of this institution.

Mr. Barnes stated to you a correct principle of law in answer to the following question:

Do you differentiate, Mr. Barnes, between speculation and what we commonly call gambling on the board of trade?

Mr. BARNES. I think you could only measure that difference by the intent, after all. There is certainly a class of speculation which is, by every intent, pure gambling.

And Mr. Barnes stated, in regard to the volums of that, on page 1903 of the record of the hearings, as follows:

"First, I believe that the minor speculation which is present in the market repays this service by the liquidity of ready trading." I think I have given sufficient facts to show that there is considerable volume. You have developed at Chicago the greatest grain market on the face of the earth. But alongside of that growth you have developed this speculative market, until the Chicago Board of Trade has also become the greatest speculative institution on the face of the earth.

Away back in 1883 it was stated as to the Chicago Board of Trade:

> It has become not only the chief of the food markets, but the greatest speculative market in the world.

This statement is contained in a magazine article in the North American Review, by H. B. Lloyd, and is copied in a "History of the Chicago Board of Trade," in three volumes. There are several passages in this history that I want to cite to you gentlemen. I think it would be a good thing if every member of this committee had a copy of that history; it was written by Charles H. Taylor in 1917. Mr. Taylor for 21 years, I believe, was a member of the board of trade, and at one time was a member of the board of directors.

Now, for a generation, the Chicago Board of Trade has been considered the leading speculative market in the world. Let us consider the real and relative size of the institution:

I find that the Louisiana Lottery in its palmiest days, according to the highest estimates made by any reputable authority, did not have more than $60,000,000 worth of business. Conservative estimates have placed the maximum at thirty million. Contrast that with this huge institution in the center of our country on which there are over $15,000,000,000 wagered annually. On Monte Carlo, I find the estimates of the volume of gross receipts of the company operating that institution to be in the neighborhood of $10,000,000 to $12,000,000 annually, and its net receipts to be approximately $5,000,000 to $6,000,000 annually.

Assuming that 52 per cent of the trades on the Chicago futures market are made by members for themselves, without the payment of any commissions (using the figure used by Mr. Boyle, which the Chicago Board of Trade is circulating) and that 28 per cent are made by members for members at one-half the regular commissions (also estimated, I believe, by Mr. Boyle), and assuming that the balance are made for outsiders on full commissions (as stated by Mr. Boyle)—applying these figures to the total volume of transactions as I have estimated, and which is a conservative estimate, being lower than Mr. Gates himself had estimated before this committee, for reasons which I shall state later—the commissions alone received on the Chicago market for an average year will aggregate more than three times the total estimated net receipts of the company operating Monte Carlo. The Chicago Board of Trade makes the Louisiana Lottery and Monte Carlo look small.

Now, with regard to stabilizing the market: We are told that the existence of a wide speculative market serves to stabilize prices. In other words, it is necessary to conduct a Monte Carlo in the grain industry in order to stabilize prices on grain. We believe it is true that the existence of a large speculative market will tend to reduce the fluctuations occasioned by individual transactions at any given moment. On the other hand, we believe that the existence of a large speculative market tends to enhance or exaggerate the fluctuations on the price level as a whole over any given period of time.

An illustration of that was given to me by a member of the Chicago Board of Trade. Suppose you had a market on futures in dealing with land; suppose it were possible to have a future market on land. What would probably transpire? In the recent remarkable decline in the prices of farm products people that were betting

as to future tendencies in land value would bet down, would they not? They would anticipate a future decline, anticipate it vigorously, with the entire world betting on it.

On the other hand, what does occur when you are confined to actual transactions in land, chiefly? The decline in the land prices takes place gradually, and probably it never does hit the bottom figure that would be realized on the future grain market. If I go onto the exchange and sell 100,000 bushels of futures for hedging purposes when there is a large volume of transactions in the speculative market, that would serve as a cushion for that individual transaction; instead of a decline of 1 per cent it might be a decline of one-eighth of 1 per cent or nothing.

That is probably correct. But I think there would be this tendency that I have just described as to the fluctuation in the price level as a whole. In other words, I think it is logical to deduce from the situation as you find it that the existence of a large speculative market does tend to retard the fluctuations for an individual transaction, but that it tends to intensify the fluctuations in the price level as a whole.

In regard to this subject of stabilizing the market, there are several charts that I want to present to the committee in a few moments.

The vast bulk of the profits made by the commission men on the Chicago Exchange are derived from the operations on the futures market, so far as commissions are concerned—by virtue of the very figures that I have stated for the record already. We have shown that these are many times greater than actual sales of grain. It is to the financial interest of these gentlemen to have constant and wide fluctuations in prices—that is where the speculator makes his money. The greater the variations, the more money he makes. Instead of stabilizing the market, the speculator is constantly forcing price changes in both small and large amounts.

However, there is one function performed by the speculative market which serves as an insurance for the elevator, the miller, and the exporter. It furnishes an opportunity for hedging. The farmers of the country want the gambling eliminated from the grain exchanges. They want to eliminate the speculation in futures by people who do not have any grain, do not expect to get any, and do not intend to make any deliveries to persons who, on the other hand, do not expect, do not want, and do not intend to receive the grain. The farmers do not want speculation in futures eliminated at the present time, if it will restrict or eliminate the opportunity to hedge. They take this position not because the hedge protects the farmer, because the farmer does not use it, but because of the insistence on the part of the intermediary operators that they do use it. The farmers are now attempting to devise some other method by which this insurance against the risk can be carried.

It is our suggestion that the agricultural interests of the country, as well as these business interests, be given a reasonable time to readjust their methods of operation and that no radical change be made at the present moment. It might be advisable to fix some date certain in the future, say, two years hence, at which time speculation in futures on the markets shall cease. (A similar method was adopted in the safety appliance legislation.) This can be accomplished by taxation, as provided in several of the bills now pending before the

committee, or possibly by the control of the telegraph, telephone, and mails used in interstate transactions.

It is not our purpose to eliminate or even to injure any of the legitimate merchandising of grain on the Chicago market or any other grain exchange in the United States. We simply desire to see speculation in futures without any intent to make deliveries, but to settle on the basis of differences, absolutely eradicated, if that be possible. It is a great moral wrong to maintain such an institution in our midst, and to allow such an organization to be our price-determining machinery on one of the great staple food products of the American Nation must not be countenanced as the permanent policy of this Nation.

Now, gentlemen, Mr. Gates and others have insisted on the great efficiency of this so-called price-determining agency; they claim it is a price-determining agency; in fact, they fought for the value of this reporting of quotations; it was described by an Illinois court as a public utility—almost. As to that the United States Supreme Court said:

> Yet it was so far from suggesting that the plaintiffs' work was unmeritorious that it held it clothed with a public use.

Again, the court said:

> The quotations of prices from the market are of the utmost importance to the business world, and not less to the farmers—so important, indeed, that it is argued here, and it has been held in Illinois, that the quotations are clothed with a public use.

Mr. McLAUGHLIN of Michigan. What court is that that you are reading from?

Mr. THORNE. The Supreme Court of the United States, in the Christie case, reported in 198 United States Reports, 236.

Mr. McLAUGHLIN of Michigan. Would it interrupt you if I ask another question? You say that is from the Supreme Court of the United States; but they seem to be quoting what some other court had said. Did the Supreme Court approve that or not?

Mr. THORNE. I do not believe that they expressly approved it, they certainly did not take exception to it. I was not reading a quotation from another decision. I will read the exact language, without any quotation marks, other than the words of the United States Supreme Court, as follows:

> Referring to the claims of one of the parties to the suit, such a view seems to us hardly consistent with the admitted fact that the quotations of prices from the market are of the utmost importance to the business world, and not less to the farmers; so important, indeed, that it is argued here, and has been held in Illinois, that the quotations are clothed with a public use.

The Illinois decision there referred to is New York & Chicago Grain and Stock Exchange *v.* Board of Trade, reported in 27 Illinois, 153.

Now, as to the efficiency of this price-determining machine, and in reply to those claims as to its great value to the farmer as at present operated, which are advanced in support of the plea that nothing shall be done to disturb it, I want to say that the farmer does not feel quite that way about it.

I have here [indicating] a chart, which attempts to portray deliveries and prices over a period of years. The black line on this

chart indicates the shipments from the country; the red line indicates the prices. We have used the average for each year as the base line. The other specific figure from which the lines are drawn are the percentages of that average.

Mr. WILSON. Who got up that chart?

Mr. THORNE. It was gotten up in my office in Chicago by Mr. Tator, who is present, and who was formerly connected with the Federal Trade Commission, and Mr. Davis, one of my statisticians. The figures from which it is compiled are stated on the chart. The prices are as compiled by the Bureau of Markets of the Agricultural Department, and the amounts of shipment are from the figures of the Bureau of Crop Estimates of the Department of Agriculture.

Mr. MCLAUGHLIN of Michigan. What does the red line indicate?

Mr. THORNE. The red line indicates the fluctuations in the prices; the black line indicates the fluctuations in shipments from the country.

I want you gentlemen to notice that, generally, when the largest movement of grain to market occurs the price is below the average; and when the least movement occurs the price is above the average.

Mr. PURNELL. Is that an unnatural condition?

Mr. THORNE. There are exceptions; but, as a rule, what I have just stated is true. Supply and demand of the grain at the market can be cited as a justification for the situation; the greater the supply the less the price; the less the supply the greater the price.

Under our present system, as worked out, we find that the farmer is shipping most of his grain when the price is the worst, so far as he is concerned, and he is shipping the least when the price is the best. That machinery does not work under present conditions to the satisfaction of the farmer. He can help make a change; he can unite in causing a more even flow of the grain to the market. But so far as the price-determining machinery is concerned, the people that are on the market, or holding the grain, are the people that profit by the existing system, to a large extent.

In regard to the subject of speculation stabilizing the market, I have several little charts here.

Here [indicating] is one showing the cash corn prices at Chicago, showing the range of quotations by months. The heavy black line on this chart indicates the trend, the upper portion of the shaded part shows the high price, and the lower portion is the low price. That covers the period from 1911 to 1920.

Now, I want to show you a chart giving the wheat prices.

The CHAIRMAN. Mr. Thorne, do you desire to have these charts printed in the record?

Mr. THORNE. I do not know that it is necessary to print them; we will file them with you, and you can determine what you desire to do about it.

The CHAIRMAN. I was going to suggest that possibly we might not be able to have them printed, and therefore you might want to elaborate more fully on the record as to what they contain.

Mr. THORNE. Here [indicating] is a chart showing the fluctuations on the price of No. 2 hard wheat at Chicago, from 1914 to 1920. You will notice here [indicating] the lines where the price remains constant. Here [indicating] are shown the fluctuations since futures have been restored.

I want you to look at the two charts: The one on corn covers a period where there was almost a total absence of control of futures: and the other covering a commodity during a period when there was an elimination of futures, during the period from August, 1917, down to June 1, 1920. These charts show graphically that the existence of a future market on corn did not serve to stabilize prices.

Mr. TINCHER. Was one of those drawn to cover the period while the price was guaranteed by the United States Government?

Mr. THORNE. I spoke of that.

Mr. TINCHER. Well, you would not expect much of a variation when the wheat price was guaranteed by the Government, would you?

Mr. THORNE. But they did vary when the minimum was fixed. I repeat that; the minimum was fixed in the period that I am marking with my finger [indicating] over to June, 1920; there was not what you would call a fixed price; it was a fixed minimum.

Now, here [indicating] is where you have a free play, practically, of the futures market on corn. Now, did the existence of the futures market tend to stabilize the prices?

In that connection I want to call attention to fluctuations in December contract wheat at Chicago—the range of daily quotations by month. Those lines [indicating] show the range. It is not very steady. It is not stabilized. We had another chart showing the situation in July. I have the figures here: On June 1, 1920, the prices of No. 2 hard winter wheat were from $2.95 to $2.96. From June 1 to July 15, the fluctuations were from $2.73 to $3.01, or a variation of 28 cents. On July 15 the price was $2.92 flat. From July 15 to July 31 the range was from $2.92 to $2.30, or a fluctuation of 62 cents.

The Government price control ceased on May 30. From June 1 to July 15 there was no dealing in futures. During that period, without dealing in futures, the fluctuation was 28 cents during that month and a half. During the next two weeks the fluctuation was 62 cents or over twice as great as when the futures were reestablished, as they were during the month and a half previously, when there were no futures and the price control did not exist.

In regard to the volume of futures at that time I have the figures which show that wheat futures were only 25,000,000 bushels; that is, from July 15 to July 31 of wheat there were only 25,000,000 bushels. The corn futures were 1,240,000,000 bushels; and the oats, 416,000,000 bushels; a total of 1,656,000,000 bushels as compared with 25,000,000 bushels in the wheat futures.

Does the absence of a large volume of futures in wheat demonstrate to you a lack of effective futures or does it demonstrate the lack of buyers with plenty of sellers? Certain people were timid about buying the futures; nobody can question that. The only thing it tends to show is that the presence of the futures market certainly did not stabilize the prices.

Mr. MCKINLEY. I want to ask you if you can tell me when the new wheat came in?

Mr. THORNE. I do not know.

Mr. MCKINLEY. Does not that have an effect on the market?

Mr. THORNE. I do not think that that would cause such a large fluctuation in future prices. I do not think that it would affect the volume of trading in futures to that extent.

Mr. McKinley. Do you not think that the prospect of a big new crop of wheat with the old crop of millions of bushels of wheat in the farmers' hands would have an effect on futures?

Mr. Thorne. Certainly that would have an effect.

Mr. McKinley. Well, was that not the case this year?

Mr. Thorne. But would that also have such an effect as to eliminate the wonderful stabilizing effect of the futures market? I thought the purpose of the futures market was to take care of such a condition.

Mr. McKinley. There is no question about that. But if you have an immense crop coming on, buyers will not buy futures.

Can you tell me, Mr. Thorne, right in connection with that, what was the price of wheat after that time? You quoted the prices for six weeks.

Mr. Thorne. I can give it for any date that you want, if you will name the date. What date is it?

Mr. McKinley. What was the last date that you gave—July 15?

Mr. Thorne. The last date I gave was July 31.

Mr. McKinley. Can you tell me what the price was about September 1?

Mr. Thorne. September 1 the low price was $2.50½ and the highest was $2.58.

Mr. McKinley. At that time the estimate of the department showed how much wheat we were going to have, or about how much we were going to have?

Mr. Thorne. I want to say that I do not question at all but what the economic forces, and estimates of supply and demand, affect the market. Nobody questions that for an instant.

The only question that I was raising was, was whether the existence of the futures market tends to offset those things and stabilize the market.

As to the volume of hedging, I gave you some total figures. I want to say, in regard to elevators hedging, that I have here a table showing the amount of hedging performed in different States by country elevators. It is quite interesting to me; I will be glad to file it with the committee, if you care to have it. It is taken from the report of the Federal Trade Commission.

It indicates that 41 per cent plus of the country elevators hedged, and that 9.8 per cent of them, in addition to that, hedged sometimes. This varies in different parts of the country.

In the State of Iowa the country elevators hedged—which includes both the line and the farmers—18 per cent. In the State of Kansas, 5.5 per cent; in Nebraska, 15 per cent. When you get up into the Northwest the situation changes. In North Dakota, 91 per cent hedge; in Minnesota, 65 per cent. When you get down into the Southwest the opposite extreme exists. In Oklahoma about 4½ per cent hedge; in Wisconsin, less than 1 per cent hedge; in the mountain and Pacific district, 1⅓ per cent hedge; in the middle Atlantic division, less than 1 per cent; in the southern division, less than 2 per cent.

In connection with that there is this striking situation: In the Northwest, where the largest hedging exists and the percentage of elevators reporting hedging is the largest, we also find the proportion of times commission houses are reported as source of loans to all

sources reported to be the largest. The proportion of loans from commission houses in North Dakota is 33 per cent. That is where the hedging is the largest. In Montana, which is the second largest, the amount of loans from the commission houses is 24 per cent. When you get down into Oklahoma, where the hedging is the least, or about the least, the proportion of times commission houses are reported as source of loans to all sources reported is less than 1 per cent. In Kansas it is 0.44 per cent; in Missouri, 3.82 per cent; in Wisconsin, 8 per cent.

If you desire, I will file that report.

The CHAIRMAN. Without objection, it may be incorporated in the record.

(The report referred to is as follows:)

TABLE 75.—*Proportion of elevators in specified States reporting hedging in comparison with the prevalence of commission-house financing.*

State.	Percentage of elevators reporting hedging to a greater or less extent.[1]	Proportion of times commission houses are reported as source of loans to all sources reported.[2]
North Dakota	94.33	33.76
Montana	89.54	24.12
Minnesota	75.10	13.94
South Dakota	71.75	21.16
Nebraska	47.96	.26
Illinois	43.71	4.23
Iowa	33.09	2.6[illegible]
Kansas	20.73	.44
Indiana	16.05	.....
Michigan	3.68	.....
Ohio	12.62	.....
Missouri	12.43	3.82
Oklahoma	8.27	.94
Wisconsin	3.04	8.3[illegible]
All elevators	51.69	10.9[illegible]

[1] The question asked was, "Is it a custom to hedge your grain purchases?" The answers fell into four divisions, "Yes," "To some extent," "No," and "Only by flour sales," as appears from Table 73. In this discussion answers to the first two classes have been combined and those to the last two. The first two classes employ hedging in varying degrees, and hedging by flour sales is a type of hedging of a radically different character from hedging in grain (Vol. VII).

[2] Appendix Table 20.

Mr. MCLAUGHLIN of Michigan. What do you conclude from that?

Mr. THORNE. I am told—I do not know personally—that the commission houses urge the hedging. This would tend to indicate that where the commission houses are making the most loans the hedging is the largest.

Mr. RIDDICK. Mr. Thorne, your statement perhaps is true, but this also is true, I think, that there is a wide fluctuation in the price of the same grades in the Northwestern States, and for that reason they sell wholly by sample, and for that reason they hedge their grain. Where a certain grade of wheat sells for the same price regularly they can easily sell their futures. I mean if they have a carload of grain, they can sell their grain by grade, but in the Northwestern country they sell it by sample and not by grade, and so they hedge their grain until the car reaches the terminal market.

Mr. THORNE. I want to say that notwithstanding the large volume of hedging in that territory we find Mr. Anderson, a member of the

committee of 17, who is in charge, I believe, of something like 70 farmers' elevators up in that region, is one of the strongest opponents that we have to the short selling.

I also want to say that Senator Ladd, recently elected United States Senator from North Dakota, in the same territory, is one of our strongest opponents to short selling.

I have here a long series of decisions in regard to the interpretation of that phrase, "intent to deliver"; and if I may be permitted, I would like to file a list of the cases where that point has been discussed along the same lines as the cases that I have quoted from.

In regard to that expression, "intent," I also want to call your attention to a booklet circulated by the Board of Trade of Chicago, the cover page of which reads:

"Hedging" in the futures market; by Rollin E. Smith; compliments of the Board of Trade of the city of Chicago; copyright 1919 by Rollin E. Smith, Chicago, Ill.

On page 5 we find the following [reading]:

Transactions in the futures market of a grain exchange are not comparable with any other commercial transaction. All attempts to draw parallels must inevitably result in failure. A horse, a bill of goods, or any other commodity may be sold for future delivery, but the contract is between parties who have the article or whose business is to get it on the one hand and parties on the other who want or deal in the actual commodity purchased.

In the futures market, as already stated, a large part of the trading and of the transactions is in the nature of protection or insurance or for speculative purposes; therefore actual delivery or acceptance of the commodity is sometimes not intended or desired by the principals, but is always intended by the exchange members who make the contract for the principals.

Intent exists in the agent, while it does not exist in the principal.

Now, I have a series of tables from which these deductions I have stated in the record were compiled. I will leave them with you, Mr. Chairman, and you can determine whether you desire to print them or not.

First, I have a table showing the receipts of wheat, corn, oats, rye, and barley at 10 of the principal western river and lake ports for the years 1914–1918, inclusive. This shows that the receipts at the other nine points were three times as great as the actual receipts at the Chicago market of grain, but when we are dealing with futures we find that the futures transactions in the Chicago market are over six times as great as the future transactions at the other nine points.

(The table referred to is as follows:)

Receipts of wheat, corn, oats, rye, and barley at 10 of the principal western river and Lake ports for the years 1914–1918, inclusive.[1]

	1914	1915	1916	1917	1918	Total.	Average.
	Bushels.	*Bushels.*	*Bushels.*	*Bushels.*	*Bushels.*	*Bushels.*	*Bushels.*
Wheat	422,773,000	442,841,000	432,513,000	262,774,000	390,277,000	1,951,178,000	390,235,600
Corn	231,038,000	215,016,000	228,598,000	190,434,000	275,209,000	1,140,295,000	228,059,000
Oats	266,397,000	261,139,000	312,995,000	280,195,000	322,906,000	1,443,632,000	288,726,400
Rye	19,775,000	21,509,000	23,104,000	22,633,000	32,463,000	119,484,000	23,896,800
Barley	89,215,000	100,623,000	113,251,000	82,883,000	73,413,000	459,385,000	91,877,000
Total	1,029,198,000	1,041,128,000	1,110,461,000	838,919,000	1,094,268,000	5,113,974,000	1,022,794,800

[1] Compiled from Annual Report of the Chicago Board of Trade (1918).

Markets: Chicago, Minneapolis, Duluth, St. Louis, Milwaukee, Kansas City, Omaha, Peoria, Toledo, Detroit.

As to the volume of futures, I have here a table showing the volume of futures estimated for Chicago and for other markets, taken from the Federal Trade Commission's recent report previously cited, volume 5.

First. An estimate made by the Federal Trade Commission: For a period of 21¼ months from December 1, 1914, to September 8, 1916, of 18,414,000,000 bushels per year based on tax returns from members of the Chicago Board of Trade.

Second. An estimate also made by the Federal Trade Commission for the four-year period 1914–1918, based on clearances for the Chicago Exchange of 16,700,000,000 bushels per year, this figure being somewhat lower than the former figure due to the elimination of future trading in wheat after August, 1917. The average for the three years 1915, 1916, and 1917 would be about 19,600,000,000 bushels.

We also have in a recent press release of the Federal Trade Commission an estimate of the volume of future trading for the months of August, September, and October, of 1920, which if multiplied by four to put it on a yearly basis would give us a figure of approximately 16,700,000,000 bushels for the Chicago market.

Mr. McKinley. Is that just of wheat?

Mr. Thorne. No; of all grain—wheat, corn, oats, rye, and barley. During that period it is stated that the wheat futures had not yet gotten back to the normal volume, being only about 30 per cent instead of 50 per cent.

Mr. Gates, formerly president of the board of trade, states that the wheat futures normally approximate 50 per cent. He so stated to this committee, and used that figure when he estimated that the total volume of futures in wheat to be 10,000,000,000 bushels. Mr. Boyle in his book estimates it to be about 11,000,000,000 bushels. The objections to Mr. Boyle's computation are as follows: First, it is based upon a single day; second, it is based upon a day when there was no dealing in futures in wheat, August 25, 1919; third, it is the result of a private investigation, without the power of the Government back of it, many firms declined to give him their figures. One or two told me so in person, that they had declined to do so, so that it must be approximation or else a number of parties were left out.

For these several reasons I do not believe that to be a reliable estimate. As a result of the various figures I have stated I think it is fair to say, as a conservative estimate, that the total number of grain future transactions approximates from 18,000,000,000 to 18,500,000,000 bushels, and that the wheat future transactions approximate from 9,000,000,000 to 9,250,000,000 bushels annually.

Using the percentages adopted by Mr. Boyle as to the proportion dealt in by members of the exchange on full commission and those by other members on half commission, we estimate the total commissions on futures market aggregate $15,600,000 annually.

In regard to the 0.28 per cent of grain being available for deliveries on future contract at Chicago, I will give the basic facts from which that figure was deduced. The rules provide, I believe, that the delivery and future transactions must be from regular elevators, plus deliveries from cars on tracks during the last three days of the delivery month. We have taken the average for five years, and then added 10 per cent for deliveries from the tracks. In arriving at that 10 per cent we consulted various authorities in Chicago, and they all

aid this was a very liberal estimate. One man on the exchange said t was not over 2 per cent.

(The table referred to is as follows:)

EXHIBIT I.

Showing the amount of different kinds of grain shipped from public elevators of Chicago from July 1, 1911, to June 30, 1916, inclusive.[1]

Year.	Wheat.	Corn.	Oats.	Rye.	Barley.	Total.
	Bushels.	*Bushels.*	*Bushels.*	*Bushels.*	*Bushels.*	*Bushels.*
911-12	16,823,601	9,582,907	13,527,283	4,094	71,379	40,009,264
912-13	17,737,480	9,600,137	4,982,450	183,135	216,395	32,719,597
913-14	20,645,113	13,915,302	18,788,473	3,329	68,450	53,420,667
914-15	15,447,178	12,606,640	24,231,111	2,986	858,715	53,146,610
915-16	11,969,439	9,301,972	11,100,671	9,017	86,842	32,467,941
Total bushels for 5 years	82,622,811	55,006,958	72,629,988	202,541	1,301,781	211,764,079
Average per year	16,524,562.2	11,001,391.6	14,525.997.6	40,508.2	260,356.2	42,352,815.8

[1] Compiled from the annual reports of the Illinois State grain inspection department.

As to the figure of 325,000,000 bushels, the average number of bushels received at the Chicago market, I have a table showing the totals for a period of five years.

(The table referred to is as follows:)

Receipts of wheat, corn oats, rye, and barley, in bushels, at Chicago, by crops, for years ending July, 1914, to 1918, inclusive.[1]

	1914	1915	1916	1917	1918	Total.
Wheat	50,824,000	107,718,000	84,800,000	56,647,000	13,734,000	313,723,000
Corn	84,954,000	116,348,000	100,763,000	78,690,000	99,860,000	480,615,000
Oats	105,738,000	142,976,000	150,478,000	141,797,000	134,315,000	678,304,000
Rye	3,206,000	3,244,000	5,652,000	5.543,000	3,766,000	21,321,000
Barley	25,033,000	25,418,000	33,147,000	26,669,000	21,127,000	131,394,000
Total	209,755,000	395,704,000	374,840,000	312,256,000	272,802,000	1,625,357,000

[1] Compiled from Annual Report of the Chicago Board of Trade (1919.)
Average, 325,071,400 bushels.

As to the volume of business done by the Louisiana lottery, we cite an article by John C. Wickliffe in the Forum of January, 1892, entitled "The Louisiana lottery, a history of the company"; also an article in the World's Work for December, 1920, on page 199, by Arthur B. Reeves.

As to the earnings at Monte Carlo, we cite a work entitled "Monaco and Monte Carlo," by Adolph Smith, where he estimates the gross receipts to be £1,600,000 in 1912. We have recently had a conference with a former employee of the company which operates the Casino. This gentleman stated that the receipts of the company raged from $5,000,000 to $12,000,000 per year.

We also cite a book entitled "Monte Carlo—facts and fallacies," by Hiram S. Maxim, at pages 8 and 9.

Using the figures for the Chicago Board of Trade, we produce the excessive amounts previously stated.

In regard to the amount of produce shipped out of the county where grown, I will file a table which shows the average during the past 10 years for wheat to be 453,000,000 bushels, for corn 530,000,000 bushels, and for oats 377,000,000 bushels.

(The tables referred to are as follows:)

Amount of wheat production; also amount and percentage shipped out of county where grown.

Year.	Production.	Shipped out.	Percentage.
	Bushels.	*Bushels.*	
1910	635,121,000	352,906,000	55.[illegible]
1911	621,338,000	348,821,000	5[illegible]
1912	730,267,000	449,908,000	61.[illegible]
1913	763,380,000	411,753,000	53.9
1914	891,017,000	541,198,000	60.7
1915	1,025,801,000	633,380,000	61.7
1916	636,318,000	361,088,000	56.7
1917	636,655,000	325,500,000	51.1
1918	921,438,000	541,666,000	58.[illegible]
1919	940,987,000	565,453,000	60.[illegible]
Total	7,802,322,000	4,531,671,000	.....
Average for 10 years	780,232,200	453,167,100	58.[illegible]

Authorities: Yearbook of the Department of Agriculture for 1918; Monthly Crop Reporter for March, 1920.

Amount of oats production; also amount and percentage shipped out of county where grown.

Year.	Production.	Shipped out.	Percentage.
	Bushels.	*Bushels*	
1910	1,186,341,000	363,103,000	3[illegible]
1911	922,298,000	265,958,000	2[illegible]
1912	1,418,337,000	438,084,000	3[illegible]
1913	1,121,768,000	297,326,000	[illegible]
1914	1,141,060,000	335,539,000	[illegible]
1915	1,549,039,000	465,823,000	[illegible]
1916	1,251,837,000	355,092,000	[illegible]
1917	1,592,740,000	514,117,000	[illegible]
1918	1,538,124,000	421,568,000	[illegible]
1919	1,248,310,000	321,223,000	25.[illegible]
Total	12,969,845,000	3,777,833,000	.....
Average for 10 years	1,296,984,500	377,783,300	29.[illegible]

Authorities: Year Book of the Department of Agriculture for 1918; Monthly Crop Reporter for 1920.

Amount of corn production; also amount and percentage shipped out of county where grown.

Year.	Production.	Shipped out.	Percentage.
	Bushels.	*Bushels.*	
1910	2,886,260,000	661,777,000	[illegible]
1911	2,531,488,000	517,704,000	[illegible]
1912	3,124,746,000	680,796,000	[illegible]
1913	2,446,988,000	422,091,000	[illegible]
1914	2,672,804,000	498,285,000	[illegible]
1915	2,994,793,000	560,824,000	[illegible]
1916	2,566,927,000	450,589,000	[illegible]
1917	3,065,233,000	678,027,000	[illegible]
1918	2,502,666,000	362,589,000	14.[illegible]
1919	2,917,450,000	474,139,000	[illegible]
Total	27,709,354,000	5,306,821,000	.....
Average for 10 years	2,770,935,400	530,682,100	[illegible]

Authorities: Year Book of the Department of Agriculture for 1918; Monthly Crop Reporter for March, 1920.

In regard to the practice of dealing in puts and calls, I do not want to undertake to define those terms. I understand they are understood to be as follows: When a man sells a put, he offers to buy a future, for instance, at a certain amount below the prevailing market, and the buyer of the put has the option to sell the future to him. Usually these expire the next day at the close of the market. When he sells a call, he offers to sell a future at a certain price, for instance, above the market, and the man that buys a call has the option to buy the future from him if he sees fit, and this is usually exercised, under the terms of the contract, by the close of the next day. I understand the prices for these privileges vary from $1 to $5—that is, $1 a thousand—and they usually deal in 5,000-bushel lots. I asked a member of the exchange if these options were practiced in to any extent, and he stated that they were, and that Mr. J. Ogden Armour is the biggest dealer in puts and calls in the world. He sells them every day. It is estimated, according to this gentleman, whose name is Mr. John Hill, jr., that Armour takes in from $10,000 to $20,000 a day by that method, from the exchange. Mr. Hill has been a member of the exchange for over 40 years and for several years has been a member of the board of directors. He is also the man that led the fight against bucket shops successfully. Mr. Hill authorizes the statement that he regards this character of transaction as the cheapest form of gambling that can be practiced.

I want to say in that connection that the Chicago Board of Trade has repeatedly condemned dealing in puts and calls and ordered it abolished forthwith, without waiting for any future date certain. Away back in 1892 the directors met and considered the situation, according to this history of the board of trade—

And in order to strengthen the board's position as to legitimate trade, an effort was made to stop trading in puts and calls. Leading traders were asked to abandon the practice, and the private-wire houses, with one or two exceptions, complied. They soon resumed, however, charging that the directors had failed to institute the vigorous campaign against privileges promised by them. A committee consisting of Messrs. Hamill, Allerton, Cudahy, Norton, and Wright next appeared before the congressional committee, and President Hamill stated that the board was opposed to trading in options, but not in the futures, which he said maintained prices. He urged that the proposed act was class legislation, which would completely revolutionize the business of the country. So serious was the situation considered that the large loan commission houses sent out circular letters to all customers with blank petitions to be signed and forwarded opposing the bill.

While they were opposing the elimination of futures, they were urging the elimination of dealings in privileges.

In 1910 again we find the following situation:

A lively controversy immediately arose over the amendment recommended by the directors, and John Hill, jr., announced a few days later that unless trading in indemnities was no longer practiced he would ask the Congress to stop it. The next day most of the big houses agreed to discontinue the objectionable form of trading, and after a consultation with Attorney H. S. Robbins, the directors voted to abolish it, the new rule to take effect immediately. However, in September an amendment was passed by a vote of 550 to 105 providing for trading in indemnities under certain restrictions, and was said to be legally sound.

Another practice of the Chicago Board of Trade that we think is unjust and should be stopped by legislative act, if possible, or otherwise, is that they refuse to allow farmers' cooperative elevator com-

panies maintained on a cooperative basis to operate on the exchanges. I know that in the testimony of Mr. Gates before this committee he made the statement that farmers could operate on the exchange. The statement that Mr. Gates made was accurate, but he did not go further and state that cooperative companies can not operate if they remain on the cooperative basis—that is, distribute their profits in proportion to the patronage. The excuse for this opposition is that it is a form of rebate.

I want to say in regard to that that the same question came up relative to the income tax on the earnings of these cooperative elevators, and these refunds to the patrons were not interpreted as rebates by the department. The net result of barring cooperative companies from the exchanges is that the farmer can not collectively market his grain. He must do it through a company, either a company of farmers or a company of exchange men or others, but he can not market his grain himself; he has to do it through somebody else. It is the development of the cooperative principle that has made this great cooperative movement succeed in the grain-elevator business throughout the West, and they do not want them to get on the exchange.

Our committee of 17 passed the following resolution in regard to that. I should like to read this to the committee:

The Farmers' Marketing Committee of Seventeen in executive session discussed the fact drawn out in the public hearing that the grain exchanges of the country deny all membership to cooperative companies. While not anticipating in any way the findings of the committee and not recognizing the grain exchanges as the best possible method of marketing grain, the committee unanimously adopted the following resolution:

Whereas the principal grain exchanges of the United States bar cooperative companies that distribute their profits in proportion with the volume of business handled, from participating in the buying and selling of farm products; and whereas, the same prevents the producer from collectively selling their own products on the markets of the country, thereby creating a monopoly in the hands of the traders; a situation which is not just and which is not in harmony with the spirit of American institutions; therefore, be it resolved, that we call upon the Federal Trade Commission, the Attorney General, or other public authority to take such steps as may be necessary to open the said markets to the membership of cooperative companies, unless the grain exchanges shall voluntarily do the same at once.

If Mr. Barnes's proposition made to this committee were adopted—I believe it was Mr. Barnes or Mr. Hoover—as to some form of investigation and supervision, if the board or commission was merely a voluntary affair, without power to act, such things as this could not be corrected. We would like a real power to investigate and supervise the exchanges' status. Whether that shall be done under a licensing system or otherwise I am not prepared to suggest, but we do believe that a real investigation of the operations of the exchanges and supervision over their activities is justified. Such an institution actually determining these prices, the greatest institution of its character in the world, without any public control, we believe is wrong.

Mr. McLAUGHLIN of Michigan. As I understand, that resolution adopted by the Committee of Seventeen recommends or calls for the Federal Trade Commission to institute proceedings to compel the grain exchanges to admit to membership representatives of these cooperative associations? Has the Federal Trade Commission, under the law under which it is operating, authority to do that?

Mr. THORNE. A recent action of that sort has been commenced, I think, in Minnesota, and the commission is conducting an investigation at the present time.

Mr. McLAUGHLIN of Michigan. How recently?

Mr. TINCHER. The hearing is set for the 7th of February, according to my understanding.

Mr. THORNE. As to their authority to make an order effective to remedy the situation under existing law I think there will be a great deal of difficulty.

Mr. McLAUGHLIN of Michigan. The reason I asked that is that there is a bill pending before this committee to compel the exchanges to admit to their membership the representatives of the cooperative associations. If the Trade Commission now has the authority to do that it will not be necessary for us to report that bill favorably.

Mr. THORNE. I do not know the constitutionality of such a measure, but you have my judgment about their ability to make such an order as I have just stated.

Mr. McLAUGHLIN of Michigan. I was not speaking of the constitutionality of the law, but do you think that under the terms of the law relating to the Federal Trade Commission they have that authority?

Mr. THORNE. As previously stated, sir, under existing statutes I think that it would be very difficult to make an effective order.

Mr. HUTCHINSON. If the board of trade should admit farmers' cooperative societies to act on the exchanges would they withdraw their opposition to this bill, whether it is right or wrong?

Mr. THORNE. If the exchanges will observe the order. It will not have anything to do with the question of dealing in futures, but one of the bills before you provides the power of investigation of their activities, and making orders, and the same thing has been suggested that there should be some sort of commission or board created, by Mr. Hoover or Mr. Barnes in previous hearings before the committee, and that is why I make that comment.

Mr. HUTCHINSON. The opposition is not entirely because they can not act on the board of trade?

Mr. THORNE. Not at all; that does not go to that point at all.

One other proposition was brought out in the previous hearings relating to the crop reports. The facilities for gathering news for members of the exchange, of course, are very great. We have one news-gathering agency in the Department of Agriculture. A question was raised as to whether the present authority was not sufficient in that connection. An examination of the statutes, I think, will show you that this news is gathered in the following way: The Department of State gathers news which it thinks is necessary, and reports what it deems necessary to the Department of Agriculture; that is, a certain character of news. On the other hand, the Treasury Department gathers other data and reports to the Department of Agriculture what it deems necessary. The two laws now on the statute books I will be glad to cite in connection with my testimony.

In other words, we have a Department of Agriculture not in control of the news-gathering agencies at all. It has to get its news second-hand. I understand that 52 per cent of the exports of this country are farm products, and a large portion of that is grain, and

I am further informed that the gathering of news by the various agencies of our Government relative to manufactures and other commercial products is very extensive; and further, that they gather practically no news at the present time and report the same promptly with reference to our farm products.

I do not say no news, but I say practically none, that it is infinitesimal in amount compared to the other, and I think the only way to correct that is to put the power definitely in the hands of the Department of Agriculture, eliminate duplication and let them issue instructions. I do not advocate the establishment of new agencies all over the world, but some method must be devised whereby the Department of Agriculture can have some authority in the gathering of that news.

Mr. YOUNG. I am confused about your statement. You are limiting your statement with reference to news gathering agencies as to foreign grain, grain produced in other countries?

Mr. THORNE. Yes, sir; I meant entirely the foreign crop report statistics. Senator Cummins has introduced a bill covering this proposition, at the suggestion of the grain men, and I think it was referred to this committee.

Mr. YOUNG. While you are on that point, is that the sole agency that we have for other commodities such as cotton?

Mr. THORNE. I think that is correct. I can not state positively, but I think that is correct.

Mr. YOUNG. But our own local statistics as to grain, cotton, etc., are gathered by the Department of Agriculture; the statistics of our own country, I mean?

Mr. THORNE. Yes, sir.

Mr. YOUNG. But as to the foreign countries they simply take their information second hand?

Mr. THORNE. Yes, sir.

Mr. YOUNG. That is news to me. I did not know that before.

Mr. LAUGHLIN of Michigan. The Department of Agriculture for many years has maintained its crop estimating force. I have not understood that they claim that there is a lack of authority to get data, but they have insisted to us, as I remember, that their operations are effective and their force is efficient, and that they get all the reports they want, and that they are accurate.

Mr. THORNE. I think you are wholly misinformed, because I myself have consulted with representatives of the Department of Agriculture in regard to this, and the bill was drafted in conjunction with them.

The CHAIRMAN. But, after all, the departments referred to have their agents scattered all over the world, and, as a matter of economy, that machinery can be utilized.

Mr. THORNE. I do not think we should duplicate the service.

The CHAIRMAN. One department can ask some other department for information.

Mr. McLAUGHLIN of Michigan. I think you are entirely right, that if the Department of Agriculture is to gather this data, they should have authority to get at the real sources of information, but I do not understand that they complain now of a lack of authority to collect data.

Mr. THORNE. The statutes I think you will find exactly as I have stated. I do not advocate the duplication of local agencies throughout the world. That would be too expensive and costly, but I do think you should establish certain regional departments where there can be placed expert men acquainted with farm products who can supervise the gathering of this data in different parts of the world and see that it is gathered and reported to Washington. That would not be a large expense.

Mr. McLAUGHLIN of Michigan. But as to the work of the Department of Agriculture itself in gathering data in this country, what authority does it lack, or wherein do you find that it lacks authority?

Mr. THORNE. I do not claim that it lacks authority in that matter. As to the gathering of statistics from abroad, I have previously stated it.

Mr. McLAUGHLIN of Michigan. I misunderstood you.

The CHAIRMAN. But inasmuch as the Department of Commerce has its people scattered over the world, and so has the State Department, it seems to me, as a matter of economy, that those people should be utilized to furnish this information.

Mr. THORNE. I think you are correct.

The CHAIRMAN. And that we are not warranted in employing an additional force where we already have the force required.

Mr. THORNE. I think you are correct to the extent that I previously stated, Mr. Chairman, but I do think that there should be these agricultural experts, a dozen or 10 scattered in different parts of the world, to supervise the gathering of agricultural statistics, and to see that they are gathered and reported promptly to Washington.

The CHAIRMAN. The Department of Agriculture has men scattered over the world. They are experts, and they select them.

Mr. THORNE. Mr. Chairman, the statement I just made I made at the very suggestion of the department.

The CHAIRMAN. I know they have them.

Mr. THORNE. Then I have been misinformed.

The CHAIRMAN. They have appeared before this committee.

Mr. THORNE. In different parts of the world, abroad?

Th CHAIRMAN. Yes, indeed; and have told us about their achievements.

Mr. TINCHER. Do you mean that?

The CHAIRMAN. The Texas man was here before the committee.

Mr. TINCHER. The Texas man who was before the committee was advocating just what Mr. Thorne is now advocating. He had been abroad as a result of the war and came to realize the necessity for just the thing that Mr. Thorne is talking about.

The CHAIRMAN. A man called at my office only a short time ago and——

Mr. TINCHER. I remember the Texas man well.

Mr. THORNE. Is he permanently outside of the boundaries of this country?

The CHAIRMAN. I assume he goes wherever he is assigned or sent.

Mr. TINCHER. No; the Texas man went outside of this country by reason of the war, on some other work.

The CHAIRMAN. He went to South America.

Mr. TINCHER. And he claimed to have discovered the necessity for our having agricultural experts in the other countries, and was advocating about the same thing that you advocate.

The CHAIRMAN. A very excellent idea, so that he can apply for one of those positions.

Mr. THORNE. Mr. Chairman, I am simply amazed at the statement that experts are stationed permanently at points throughout the world to supervise the gathering of agricultural statistics, with power to require them to be gathered by local agents now existing throughout the world, because I have been informed directly to the contrary, and I have likely misinformed Senator Cummins, because if that be the case he would not have introduced a bill in regard to it.

The CHAIRMAN. Not permanently. I said that they are scattered over the world. I do not know how many, but they are being employed.

Mr. THORNE. In regard to the cooperative elevators, I wanted to find out their attitude in regard to the bill pending before the committee, so I sent out an interrogatory, without any argument or data attempting to influence their conclusions. The entire communication reads as follows:

DEAR SIR: The House Committee on Agriculture has requested me to appear before them on Tuesday, January 25, in regard to the law taxing futures on the grain exchanges.

I desire your views by return mail on the following questions:

1. Do you favor legislation eliminating speculation in futures from the grain markets, providing the opportunity to hedge is preserved?

2. Do you favor legislation eliminating speculation in futures from the grain market, even though it would restrict or prevent hedging on the markets?

Please do not fail to reply by return mail.

This letter was addressed to the board of directors of the Farmers' National Grain Dealers' Association. The location of these I have indicated by this little map, 12 States in the central part of the country. In those States approximately 69 per cent of the wheat is produced and approximately 61 per cent of the corn is produced, based upon the 1919 figures. I received replies, I think, from nine States.

Mr. S. J. Cottington, president of the organization in Iowa, answered yes to both interrogations. In answer to the second he says, "Yes; stop the future speculation."

The balance practically all answer in the affirmative to the first interrogatory and in the negative to the second interrogatory.

I have here an answer from Mr. E. E. Evans, secretary of the Missouri association, to that effect; also an answer from P. E. Donnell, president of the Missouri organization, to that effect; also from Mr. Lawrence Farlow, secretary of the Illinois association, to that effect; also from Mr. J. S. Minch, president of the Indiana association, to that effect; also from Mr. Charles S. Latchaw, secretary of the Ohio association, to that effect.

Mr. PURNELL. Is that the individual judgment of the man signing the communication?

Mr. THORNE. That was all.

Mr. PURNELL. There was no referendum to the stockholders or other people interested?

Mr. THORNE. No, sir; it is just an indication of the trend of opinion on the subject.

Mr. PURNELL. As indicated by the individual officers?

Mr. THORNE. Yes, sir; by the president and secretary, who constitute the board of directors of the national association.

Mr. M. C. Gaulke, Grand Forks, N. Dak., replied as follows:

I am in favor of eliminating some speculating, but the future market should be preserved for the benefit of grain dealers that must protect their purchases and sales.

Mr. A. F. Nelson, secretary of the Minnesota association, answers the first interrogatory: "Yes; if it can be done," and answers the second interrogatory in the negative.

Mr. Charles H. Eyler, secretary of the South Dakota association, writes as follows:

You asked my opinion on future trading. I for my part am not very much interested in this legislation, one way or the other, although I think for the present future trading should stand as it is in order to preserve the opportunity and advantage of hedging. I am afraid if restrictions are placed on the option market on grain that it will take the safeguard of the insurance through hedging away from our farmers' organizations. I believe that until we have a system to take the place of future trading it will be best to let it alone.

Mr. J. B. Brown, of Larned, Kans., the president of the Kansas association, replies in the affirmative to the first interrogatory, and to the second interrogatory, "I am doubtful."

Mr. R. E. Lawrence, secretary of the Kansas association, replies to the first interrogatory, "We do," and to the second interrogatory, "Not at this time."

Mr. Walter B. Jessee, the secretary of the Oklahoma association, replies as follows:

Your letter relative to the legislation proposed in regard to the law taxing futures on the grain exchanges received and contents carefully studied.

I confess that I hardly feel qualified to advise you what my own opinion, as I know relatively little concerning the exchanges, and I do not like to offer advice on mere sentiment.

I do favor legislation eliminating speculating in futures from the grain exchanges, providing the opportunity to hedge is preserved.

I do not favor legislation eliminating speculation in futures from the grain markets if same will prevent hedging, providing the legislation will become effective at an early date. I take this position because I believe that the elimination of the evil without offering any remedy will demoralize the market. In other words, we should have the plan worked out that will assume the duties and offset privileges that are permitted in the futures and hedging markets.

It is my belief that we should try to find some method of grain marketing that is not based on speculation.

That is a complete list of replies from all the parties received up to date.

The CHAIRMAN. Thank you, Mr. Thorne.

Mr. Atheson desires to submit a statement to the committee.

FORT DODGE, IOWA,
January 22, 1921.

Mr. CLIFFORD THORNE,
1414 Lytton Building, Chicago, Ill.

In re speculation in grain.

DEAR MR. THORNE: Yours of January 17 at hand asking the following questions:

1. "Do you favor legislation eliminating speculation in future from the grain markets, providing the opportunity to hedge is preserved?

2. "Do you favor legislation eliminating speculation in future from the grain markets, even though it would restrict or prevent hedging on the markets?"

We have replied under date of January 22 by wire as follows:

"Replying to your letter of the 17th we favor elimination of short selling. It is quite probable that individual farmers would prefer entirely eliminating speculation. Hardly enough data is at hand to determine whether or not speculation would be entirely eliminated in case it would restrict or prevent hedging."

To be frank with you, although there has been considerable agitation relative to the proposition of entirely eliminating speculation from the grain markets, as mentioned in our telegram, there is hardly sufficient data to put us in position to adequately answer this question. It would appeal to us that the report of the Federal Trade Commission ought to be of more value to you in determining your position than the personal opinion of any man connected with this movement.

We realize that the individual farmer, in the main, favors a proposition wherein speculation would be entirely removed. The individual farmer, however, does not realize the fact that there is a certain speculative risk in carrying his own grain in the bin. He does not realize that he is taking a similar risk to the man who buys or sells a future when he does not possess the actual grain. As far as our position is concerned, we realize the difference, however, as far as economic principles are concerned, between the man who deals in futures when he has the actual grain on hand and the man who deals in futures when he does not expect to either make or receive delivery. Therefore, it would seem that the elimination of short selling would really be in the interests of the economic progress of all parties concerned.

Trusting that this will give you the necessary information concerning our attitude in this matter in order that you may be in position to adequately present the situation to the House Committee on Agriculture, and awaiting the pleasure of being of further service, we are,

Very truly, yours,

FARMERS' GRAIN DEALERS ASSOCIATION OF IOWA.
FRANK M. MYERS, *Secretary.*

Dictated prior to our convention, but in the rush of the last few days we did not get everything done.

STATEMENT OF T. C. ATKESON, WASHINGTON REPRESENTATIVE OF THE NATIONAL GRANGE.

Mr. ATKESON. The question of regulating the various produce exchanges was brought before the National Grange at its last annual session in Boston, Mass., in November, 1920, by a resolution which was introduced by Mr. A. B. Judson, of Balfour, Iowa, master of the Iowa State Grange, and also by reference to this suggestion in the report of the committee on cooperation, of which Mr. L. J. Tabor, of Barnesville, Ohio, the master of the Ohio State Grange, was chairman. This was not the first time that this matter has been considered by the National Grange, as the practice which has grown up on the various grain and other exchanges of dealing in foods, buying and selling for what has generally been considered to be speculative or gambling purposes, has been frequently referred to at past sessions of this body and always has been condemned as harmful to the best interests of the people who produce the necessities of life which are bought and sold on these exchanges.

Therefore, this was not a new matter when brought before the last session of the National Grange, and the action of the grange in adopting the resolution introduced by State Master Judson and in approving the report and recommendation of its committee on cooperation, taken as they were after full consideration and deliberation, may be said to fairly represent the views of this great organization of farmers which I wish to present to this committee for your

consideration and as the basis for a request that you report back to the House a constructive measure which will put an end, as far as possible, to the evils which we believe to exist in the present system of dealing in grain, provisions, and other necessities of life on the grain exchanges of the United States.

I now wish to read into the record the action of the National Grange on these two matters:

RESOLUTION ON GAMBLING IN GRAIN.

[By Brother Judson.]

Whereas it has been estimated that since July 15 the speculators have sold or oversold this year's wheat crop six or seven times; and

Whereas, because of this speculation, the prices of farm products are being forced below the cost of production without any apparent benefit to the consumer: Therefore be it

Resolved by the National Grange in fifty-fourth annual session assembled, That we demand the enactment of such laws as will prohibit the gambling in all food products.

The committee report favorable, and after full discussion was adopted.

REPORT OF COMMITTEE ON COOPERATION.

The American farmer is thoroughly sick and tired of conditions that make it impossible for him to have a voice in determining what he is to receive for the product of his toil. They are tired of developing millionaire grain gamblers, meat packers, and food distributors, while tenantry increases and the boys and girls leave the farm by the thousands. The American farmer is never radical, but he is conservatively progressive, and when once aroused can be relied upon to take action for the welfare of agriculture and the Nation.

Most farmers and all farm organizations have been giving lip service at the shrine of cooperation for more than a generation. The time is at hand when the welfare of agriculture and the life of the Nation demand definite, constructive, and forward-looking progress in this direction.

We are at the forks of the road; one road leads toward the continuation of the present method, and at the end we find increased tenantry, decreased rural population, decay of the highest rural standards, and inevitable injury or disaster to the Nation. The other pathway leads toward a sound rural policy in which a self-respecting agriculture takes into its own hands the conduct as much as may be of his own affairs.

This will mean that individualism and personal selfishness must give way to cooperative effort and community spirit; and the first essential step is the planting of the grange or some similar organization into the rural communities of the Nation. Next in importance must come a complete development of our commodity organizations. Agriculture must organize around meat, milk, grain, fruit, etc., for the sake of efficiency. Equal in importance to this is the necessity of having these organizations strongly financed, and the farmers must be willing to pay for operating brains. Rural forces must be coordinated so that these various groups will not work at cross-purposes and will not interfere with each other's success. Legislation may be necessary to protect the producer and the consumer in the development of the movement. Lastly, organized agriculture must prepare to meet organized labor and organized capital on an equal footing, but must ever keep in view the common interest of the consuming public.

To protect the future of our calling and the future of the Republic, organization, education, plus cooperation, can be made to assist in adding to the profit and independence of agriculture. It will be impossible to protect the lazy, the indifferent, or the shiftless, but it is possible, through the utilization of the above-mentioned agencies, to guarantee to young men and women of character and industry that they can secure returns in happiness, in contentment, in wordly goods, and in the best things of life as a result of toil on the farm as compared with other vocations.

We are not unmindful of the fact that the law of supply and demand, when not interfered with, always has and always will control the price of commodities. Organized agriculture has no desire to set aside this law and imitate other organizations in the creation or formation of a farmers' trust, but we are in a frame of mind to demand that the speculation and gambling in the products of our toil shall cease, as much as possible, and insist that the American consumer is entitled to pay prices that will give the American farmer sufficient reward to maintain himself and family in typical American standards, to provide for adversity and old age, and to insure an occupation sufficiently remunerative to hold young men and women of the right type upon the soil.

In the past the thought and effort of agricultural educators, leaders, and workers has been directed along production lines. In the decade ahead the first thought and effort of all real friends of the farmers must be directed toward better marketing and distribution methods.

Cooperation may be divided in two classes, buying and selling. Cooperative buying has been practiced in the grange and other farm organizations for almost half a century. Cooperative selling is in its infancy and is a question demanding earnest consideration.

Cooperative buying.—Your committee would recommend that, where possible, the State granges give more careful attention to this phase of our work. In some States, notably New York, it has been found advisable to unite the buying agencies of the grange and other organizations together in a strong incorporated company with abundant capital. This plan will make for efficiency where local conditions warrant and where the organizations composing the whole are of about equal size and character.

We would recommend that the master and executive committee of the National Grange district the national in three or more districts, and we recommend that the business agents of the State granges of these various districts be called together early in the year to plan for uniform and better work.

Marketing committee.—The greatest question before American agriculture is that of better marketing methods. All other questions take minor place when compared with our great marketing problems. The committee of 17 seemingly represents all the rural interests in the grain-producing States. We recommend, therefore, no definite plan of cooperative grain marketing at the present time, awaiting the action of this committee.

We instruct our representative in this committee to advocate the abolition of dealing in futures in food products, and for the establishment of a marketing method that will place in the hands of the farmers themselves as much as possible the marketing machinery of the Nation. We trust that the report of this committee will be so constructive and practical that it will appeal to thoughtful farmers, and yet so fair that the consuming public will realize it is safer in the hands of the actual producer than speculators.

The National Grange can not pledge itself to the acceptance of any report or program until it has first been approved by our organization, but we do promise this committee that if its large tasks are honestly and fairly performed, and meet the approval of this national organization, we will do everything in our power for their success.

General recommendations.—We recommend the passage by Congress of legislation guaranteeing the right of collective bargaining and cooperative marketing of farm products.

Second. We urge the passage of comprehensive cooperative legislation by the Federal Government and uniform cooperative laws by the States.

Third. Plans must be made for the proper short-time financing of the farmer during the movement of grain and food products, permitting their marketing in an orderly manner as the market demands.

LOUIS J. TABOR.
B. NEEDHAM.
B. JOHN BLACK.
MRS. MABEL C. STEERS.
MRS. EMMA R. IHDE.
MRS. JOHN MORRIS.

Brother Atkeson moved the report and the three recommendations be adopted. Discussed and report adopted.

STATEMENT OF MR. FREDERICK B. WELLS, VICE PRESIDENT F. H. PEAVEY & CO., MINNEAPOLIS, MINN.

Mr. WELLS. I am vice president of F. H. Peavey & Co., a corporation owning or controlling a number of subsidiaries which operate country and terminal elevators, located principally in the Northwestern States and in western Canada. My business is confined entirely to the purchase and warehousing of grain. None of my companies conduct a commission business, either in cash, grain, or in future contracts, nor do they either, for themselves or for others, handle speculative trades. All of the grain purchased by the elevator companies which I control is hedged by sales for future delivery, and this is the only use which I make of the futures markets.

Having made clear my position in the trade as that of a handler of cash grain, I would respectfully call your attention to two points which have been raised during the present hearing and which, to my mind, have not been satisfactorily explained.

Your attention has been repeatedly called to the fact that while country elevators in certain sections of the country hedge their cash purchases by sales of futures, in other sections this practice is rarely if ever followed. This apparent discrepancy in the hedging practice of country elevators is easily accounted for by one familiar with the practices of the trade. At the outset I wish to state that practically all country purchases of grain are based upon the ability of the purchaser to protect himself against a decline in the market through the use of a sale for future delivery, otherwise known as a hedge. The only difference in practice is that in the Southwestern and Central States the country elevator operator bases his prices upon bids which he receives, but it must be borne in mind that these bids are based upon the ability of the bidder to protect or hedge his purchases by sales for future delivery. Consequently, although the country elevator operator in the sections of the country mentioned does not directly hedge his purchases in the futures markets, he indirectly is buying upon the basis of the future, the bidder to whom he sells standing between the country dealer and the hedge.

The wheat crop of the Northwest is practically all sold by sample, because of the fact that the greater portion of the spring wheat is required for domestic milling purposes and is purchased on the basis of milling value rather than actual grade. This condition is evidenced by the fact that there is constantly a wide range in prices for the same grade of wheat in Minneapolis and Duluth markets. It is not at all unusual to find, for instance, two northern wheats possessing desirable milling qualities selling at a price equal to or higher than one northern wheat not so desirable for milling purposes. Under these conditions, if the country grain dealer of the Northwest sold his wheat by grade on the basis of car bids, as is the custom in the Southwestern and Central States, he would lose the opportunity of securing substantial premiums for any choice varieties of wheat which he might ship. It is for this reason that the Northwestern grain dealer hedges his wheat purchases through the sale of future contracts. He then ships his wheat to market and offers it for sale by sample. When sales are effected he purchases his future contract, which has meanwhile protected him against a decline in the market.

The second point which to my mind has not been made clear to you is in connection with the deliveries of wheat on future contracts. So far as my own country elevator business is concerned, I have no hesitancy in stating that very rarely, if ever, do I make actual deliveries on the future contracts sold as a protection against my country purchases, and I believe this to be largely true of all country grain dealers. While technical deliveries are not made on futures contracts by the country grain dealer, he, in effect, makes delivery of all grain which he sells in the futures markets. To make clear this point I will recite an everyday occurrence in connection with the country elevator business in the Northwestern States. We will assume that I have in store in country elevators 500,000 bushels of wheat sold for May delivery in the Minneapolis market and that Washburn Crosby Co. have purchased 500,000 bushels of May wheat against flour sales made for deferred shipment. The time comes when the miller wishes to begin to manufacture the flour which he has sold for forward shipment and current arrivals of wheat in the Minneapolis market are not sufficiently large to supply his requirements. Having ascertained that I am carrying a stock of wheat in the country the miller would come to me and negotiate for its purchase.

We will assume that negotiations are carried on during the month of April and that I agree to sell to the miller 500,000 bushels of No. 1 northern wheat at Minneapolis May price. The miller then transfers to me at the market quotation the 500,000 bushels of Minneapolis May wheat which he has previously purchased, and this acts as an offset and cleans up my hedge of 500,000 bushels of Minneapolis May wheat previously sold against my cash holdings. I then record the sale of 500,000 bushels of No. 1 northern wheat to the miller at the price at which he transferred to me his future contract. You will note that an actual delivery of cash wheat resulted from my hedging operation, although the delivery was not technically in accordance with the terms of the future contract. Through the exchange of cash grain for futures a tremendous volume of actual grain changes hands every business day of the year, and these exchanges of cash grain for futures must be considered for all practical purposes as delivery on future contracts. Looking at the question from this standpoint the deliveries on future contracts during the year aggregate hundreds of millions of bushels instead of the relatively small amounts delivered in terminal markets according to the technical provisions of future contracts.

The trade practice demonstrates very clearly that the volume of future trading in any market bears but little relation to the receipts of grain in that market.

A great many statements have been made relative to the volume of future trading on the various exchanges, and I would like to call your attention to the fact that the first official figures relative to this trading have been made available through the recently published report of the Federal Trade Commission. I would particularly invite your attention to Table 3, page 35, and Table 5, page 37, of volume 5 of the report mentioned.

In conclusion, I beg to state that as a handler of grain in large volumes I would deprecate exceedingly the passage of any legisla-

tion which would in any way impair the existing efficiency of the grain-hedging markets.

After 30 years of experience, I have no hesitancy in stating, that, in my opinion, it is only through the use of the hedging markets that the producer of grain has received such a large percentage of the terminal value of his grain, and this, in the final analysis, is the measure of efficiency of any grain marketing system.

While I believe that speculation is absolutely necessary for the existence of a satisfactory hedging market, I am strongly opposed to manipulative speculation and would gladly see it eliminated from the markets if it were possible without destroying the entire machinery.

It occurs to me that a certain amount of supervision over the future trading in various markets could be exercised through the Internal Revenue Department. Under existing laws, there is, as you know, a tax on all future trades in grain. The traders in all exchanges are required to submit to the Internal Revenue Department monthly statements showing the volume of future trading which they have done during that period. Were the Internal Revenue Department to consolidate these figures for each market and make monthly comparison of the volume of trading, any marked increase or decrease in the volume of trading would be noticeable and could be investigated. If in the opinion of the Internal Revenue Department the trading in any market indicated manipulation contrary to the public interests, the matter would be reported to the Federal Trade Commission for investigation. Inasmuch as manipulative speculation is most assuredly unfair competition, I am offering this crude suggestion, not with the thought that it has any practical value in its present form, but with the hope that some form of helpful supervision could be exercised by the agency mentioned without in any way impairing the efficiency of the futures' markets.

The CHAIRMAN. Without objection the following correspondence and memorandum will be inserted in the record.

(The correspondence referred to is as follows:)

OTRANTO STATION, IOWA,
January 21, 1921.

Hon. G. N. HAUGEN,
Washington, D. C.

DEAR MR. HAUGEN: Regarding the legislation before Congress bearing on the present system of marketing and dealing in grains, I wish to bring before you my views and my solution of the problems before us at this time. Speculation and gambling should cease at once by the board of trade. Futures and hedging as they are politely so-called should stop. This stuff can do the farmer no good. The speculator and gambler are absolutely powerless to do the farmer any good. They are a parasite, living off the farmers, who are the real producers. The only way the speculator and gambler could do the farmer any good is to give the farmer something voluntarily; had they never been engaged in any other business than speculation and gambling on farm products, they then would not be giving him anything, for it necessarily had to come from the real article and farmers produce the real article.

The farmers will have to bear the burden until a better system of marketing and price making are put into action, and as I understand it, this is not far distant. The farmers can either cooperate fairly and find a market for their farm products or go into bankruptcy. I am fully aware you understand that it is the dirt that must come out, i. e., the speculation and gambling. This got in from the beginning and it is up to the farmers to take it out by doing the fair and square thing by themselves (cooperating). The farmers can not

afford this stuff in the system, for it spells ruination to the farmers, whether they all realize it or not; eventually it will spell ruination to the Nation.

Waste no time on Julius H. Barnes's petty scheme for sustaining futures (speculation and gambling). It can do the farmers no good, and must come out.

A similar letter is being sent Senator Kenyon.

Very truly, yours,

J. L. LANE.

[Telegram.]

SAN ANGELO, TEX., *January 24.*

Maj. L. G. HAUGEN,
Congress Hall Hotel, Washington, D. C.:

Highly important to interests of cotton farmers that bill regulating exchanges be passed. Anyone claiming to represent farmers and who oppose termination of cotton gambling grossly misrepresents interests of farmers. Gambling on exchanges creates artificial condition, leaving farmers at mercy of speculators.

PENROSE B. METCALFE.

DEPARTMENT OF AGRICULTURE,
Washington, January 19, 1921.

Hon. GILBERT N. HAUGEN,
Chairman Committee on Agriculture, House of Representatives.

DEAR MR. HAUGEN: I inclose herewith for your information a copy of a letter, dated January 8, which we have received from Mr. G. O. Cruikshank, of Leipsic, Ohio, who, according to his letterhead, is engaged in the grain business, and who makes certain suggestions regarding the regulation of the future exchanges.

Very truly, yours,

E. W. BALL, *Acting Secretary.*

LEIPSIC, OHIO, *January 8, 1921.*

The SECRETARY OF AGRICULTURE,
Washington, D. C.

DEAR SIR: I understand the question of dealing in futures in Chicago is coming up before Congress in a few days. I am very much interested in this question from the viewpoint that I have been in the grain business for some 25 years.

I have been watching the different ideas advanced by the farmers' organizations around over the State, and also other lines of business that are interested in the grain business of the country, and I have never yet seen what I consider the proper plan for the regulation of the dealings in future grains. I do not believe that our country could get along without dealing in futures of grain, but I do believe that it should be regulated, and my idea of regulating same is this: To limit each dealer in selling short on the market to 200,000 bushels. Anything that he sells short above this he must show he has the actual grain to deliver on same, and that he is making his short sales for a hedge purely when he deals in anything above 200,000 bushels.

Of course, this same plan should apply on the opposite side when they go long on the grain market. They also should be limited to 200,000 bushels, and if they buy any more than this amount they should show that they have cash sales on grain that they are protecting.

In my judgment, this would eliminate the exceedingly large swings that we have in the grain business, which are caused by a few multimillionaires in our country getting control of the grain markets through speculation.

Very truly, yours,

G. O. CRUIKSHANK.

NEW YORK, *January 20, 1921.*

Hon. GILBERT N. HAUGEN,
Chairman Committee on Agriculture,
House of Representatives.

DEAR SIR: With reference to the remarks of the Hon. Halvor Steenerson in support of H. R. 14667, "An act to regulate grain exchanges," I would respectfully call your attention to telegram from the Minneapolis Chamber of Commerce which I inclose herewith. I trust that you may find it consistent to include this telegram in the record of the hearings upon H. R. 14667.

Your attention is particularly invited to the fact that the Saskatchewan Cooperative Elevator Co., of Canada, is and for some time past has been a member of the Minneapolis Chamber of Commerce, which would seem to indicate that coopeartive selling agencies can, if they so desire, adjust their affairs so as to conform to the commission rules in effect at terminal markets.

Trusting that you may see fit to incorporate the inclosed telegram in the record, I beg to remain,

Respectfully,

FREDERICK B. WELLS.

[Telegram.]

MINNEAPOLIS, MINN.

F. B. WELLS,
Biltmore Hotel, New York, N. Y.:

Yesterday's Minneapolis Journal quotes Congressman Steenerson as stating before the House Committee on Agriculture, in reference to our resolution regarding the admission of farmers selling agencies, as follows:

"The directors are trying to square themselves; they say in these resolutions that they have always been willing to admit representatives of cooperative associations to membership, but they have not admitted one of them, and it would be difficult for them to get in under the terms of their resolution, etc."

Your attention is directed to the fact that the Farmers' Grain Co., of Devils Lake, N. Dak., became a member January 15, 1906; the Saskatchewan Cooperative Elevator Co. of Canada, one of the largest farmers' selling agencies in the world, became a member of the Chamber of Commerce of Minneapolis June 19, 1917; the Farmers' Elevator Commission Co., a selling agency owned and operated by farmers' elevators mainly in southern Minnesota, became a member of the chamber on July 8, 1919. I am instructed to wire you these facts, with the suggestion that this telegram be filed with the committee for consideration in connection with statement of Congressman Steenerson.

JOHN C. MCHUGH, *Secretary.*

HOUSE OF REPRESENTATIVES,
Washington, D. C., January 21, 1921.

DEAR MR. HAUGEN: Will you kindly print in the record the inclosed letter of George E. Duis, of Grand Forks, N. Dak.

Sincerely,

GEORGE M. YOUNG.

WHEAT GROWERS' ASSOCIATION OF AMERICA,
Grand Forks, N. Dak., January 18, 1921.

Hon. GEORGE M. YOUNG, M. C.,
Washington, D. C.

DEAR MR. YOUNG: In yesterday's press dispatches from Washington I noticed that John W. Scott had appeared as a witness before the Tincher-Capper committee in behalf of the Minneapolis Grain Exchange. I was very much surprised at the kind of testimony presented by Mr. Scott. About the only fact in the testimony is that he is a farmer from North Dakota. He lives near Gilby, in Grand Forks County.

Mr. Scott absolutely misrepresents the rank and file of the farmers of North Dakota. He attempts to represent himself down there as a friend of the farmer. I doubt if you could find five farmers in Grand Forks County who have any knowledge of the situation who would agree with any single proposition which Mr. Scott made before that committee.

As a farmer who is farming more that 2,000 acres of land, I want to protest against the representations made by Mr. Scott, and when I protest I feel very confident that 95 per cent of the North Dakota farmers are behind me in this statement of opposition. The farmers of this country are not only dissatisfied but they are disgusted with the methods of the Minneapolis Grain Exchange. They are sick and tired of the football tactics as applied to the commodities we market. We absolutely want "short selling" of farm products eliminated.

Our farmers are simply disgusted with the testimony and arguments of Mr Scott, and I can assure you that there will be 10,000 farmers in North Dakota who will go after him on his return. All we are asking is a square deal, and we do not want any man like Mr. Scott to go down to Washington, who has no support behind him, and make statements that the present marketing condition is the best and most satisfactory that has been devised. We hope that the committee will give Mr. Scott's opinion only such weight as it is entitled to, and that is nothing more or less than a childish, personal opinion of a single individual, and does not in any manner represent the opinion or judgment of our farmers. .

I should like very much to hear from you as to what may be necessary to counteract this kind of influence, if it has any weight with the committee. You may be sure that our farmers will greatly appreciate your efforts in their behalf.

Very respectfully, GEO. E. DUIS.

[Telegram.]

SAN ANGELO, TEX., *January 11, 1921.*

C. B. HUDSPETH,
Washington, D. C.:

Farmers' Union has worked officially to abolish exchange gambling. You have my files also showing convention in Dallas, cotton growers, bankers, and merchants, passed resolution to allow no sales except by owners. Push your bill.

C. B. METCALFE.

[Telegram.]

SAN ANGELO, TEX., *January 11, 1921.*

C. B. HUDSPETH, M. C.,
Washington D. C.:

Farmers' Union and farmers anxious for abolition of future gambling in cotton, wheat, and all further farm products. Do all you can to stop the nefarious practice, which destroys all stabilities of prices and enables exchange gambling to rob producers and consumers of billions.

W. B. BUTTE,
Secretary Lipan Farmers' Union.

[Telegram.]

AUSTIN, TEX., *January 13, 1921.*

C. B. HUDSPETH, M. C.,
Washington D. C.:

Texas Farmers' Union has uniformly opposed gambling in cotton futures on the exchange. We want future sellers forced to deliver every bale sold, and believe every sale should specify approximate grade and staple sold. We do not oppose exchanges as places where real contracts are made for actual future delivery or real cotton, but hold that sales of millions of bales with no intention to deliver or with privilege of delivering entire lot of lower grades than spinners desire for actual spinning is the greatest means ever invented for pauperizing cotton producers. Persons claiming farmers favor present exchange operations do not represent Texas Farmers' Union nor, so far as I am aware, any other organized body of farmers. This message at request of C. B. Metcalfe.

D. E. LYDAY,
President Texas Farmers' Union.

WORLD'S PRODUCTION OF WHEAT.

The world's production of wheat for the past five years has been estimated to average per year about 2,848,000,000 bushels. (Statistics based on figures given in Year Book, 1920, of the Price Current Grain Reporter.) If we compare this with the future trading in wheat on Chicago Board of Trade, which has been estimated to be about 50 per cent of the future trading in all grades, and use the period from December 1, 1914, to September, 1916, as a basis (see Federal Trade Commission Report on Grain, Vol. V, p. 34) we would get as the volume of future training in wheat 9,207,000,000 bushels. This represents three and two-tenths times as many bushels traded in on the Chicago Board of Trade in one year as was produced in the world.

GRAINS AVAILABLE FOR DELIVERY ON FUTURE CONTRACTS AT CHICAGO.

[See Exhibit I for detailed figures.]

The average amounts of wheat, corn, oats, rye, and barley shipped from all public elevators of Chicago per year for the five-year period, 1912–1916, inclusive. was 42,352,815.8[1] bushels; allowing for deliveries of grain on track during last three days of delivery months to have been 10 per cent of above figure we will add 4,235,281.58[2] bushels; total available for delivery on future contracts, 46,588,096.38 bushels.

The average amount of future trading per year at the Chicago market for the five-year period, 1914–1918, inclusive, was estimated by the Federal Trade Commission at 16,700,000,000[3] bushels. The amount of grain available for delivery in comparison to future trading was twenty-eight one-hundredths of 1 per cent.

Comparison of future trading on the Chicago Board of Trade with future trading on all other futures markets of United States.

	Bushels.
The Federal Trade Commission estimates the total future trading on all markets for the five-year period, 1914–1918, as averaging per year	19,400,000,000
The estimate for Chicago Board of Trade	16,700,000,000
All other markets except Chicago	2,700,000,000

Or, in other words, over six times as much future trade at Chicago as at all the other markets.

	Bushels.
The receipts of grain at 10 of the principal western river and Lake ports averaged for the same period, including Chicago[4]	1,022,794,800
The receipts at Chicago averaged for the period	325,071,400
The receipts at the other nine ports averaged	697,723,400

Or, in other words, Chicago received less than one-third of the grain received at the 10 ports.

TOTAL GRAIN RECEIPTS AT CHICAGO MARKET.

[See Exhibit II.]

The average yearly receipts of the five grains—wheat, corn, oats, rye, and barley—at Chicago for the 5-year period 1914–1918, inclusive, was 325,071,400 bushels. The estimated amount of future trading was, for the same period, 16,700,000,000 bushels. There were about fifty-one times as many bushels traded in on the futures market of the Chicago Board of Trade as were received in Chicago.

[1] Figures include rye and barley, which were not traded in until August and September, 1918, the last year included in the average.

[2] Ten per cent is considered a very generous allowance by authorities of the grain trade for grain on track available for delivery.

See Volume I, Grain Reports, page 42.

[3] Average for five years includes figures for 1917 and 1918. During 1918 there was no future trading in wheat in the Chicago market; in fact, trading in wheat for future delivery was prohibited by the Chicago Board of Trade on May 11, 1917, and some restrictions were later placed on trading for future delivery on corn, oats, rye, and barley.

[4] Wheat, corn, oats, and barley.

Grain shipped out of county where grown.

	1915	1916	Total.	Average.
	Bushels.	*Bushels.*	*Bushels.*	*Bushels.*
Wheat	633,380,000	361,088,000	994,468,000	497,234,00
Corn	560,824,000	450,589,000	1,011,413,000	505,706,50
Oats	465,823,000	355,092,000	820,915,000	410,457,50
Total	1,660,027,000	1,166,769,000	2,826,796,000	1,413,398,00

The average for these two years for the grains of amounts shipped out of county where grown was 1,413,398,000 bushels. Comparing this with the future trading in these three grains on the Chicago Board of Trade for the same period (approximately) we find the total future trading averaged 18,414,000,000 bushels, or about thirteen times as many bushels as were shipped out of county where grown were traded in on this one market alone (future trading only).

LOUISIANA LOTTERY.

The best estimate of the amount of money collected for the sale of lottery tickets in connection with the Louisiana lottery places the amount at (per year 1891) $30,028,240. The maximum estimate, $60,000,000. The Federal Trade Commission estimates that the yearly average (based on figures for 21½ months for tax returns Dec. 1, 1914, to Sept. 8, 1916) of the bushels traded in future delivery on the Chicago Board of Trade was 18,414,000,000 bushels. The average Chicago price of the grain futures affected during the period when the 1914 tax was in operation was 92 cents per bushel. On this basis the money value of the 18,414,000,000 bushels would be $16,940,880,000.

The most recent article which could be found bearing on the volume of gambling represented by Louisiana lottery was that of Arthur B. Reeves in the World's Work for December, 1920, on page 199. The following sentence, bearing on the extent of the income to the company operating the lottery, appears: "And it is estimated that the annual receipts ran from thirty to sixty million dollars, an amazing proof of the basic sucker proclivities of the average citizen."

In an article appearing in the Forum of January, 1892, by John C. Wickliffe entitled "The Louisiana lottery, a history of the company," some idea may be gained of the gross receipts by the company from the "drawings," which were of two kinds, monthly and daily. There were 12 monthly drawings, tickets for which, if all sold, would net the company $28,000,000, and the prizes offered by the company would return to the winners $14,767,200, leaving a balance representing gross profits to the company of $13,232,800. The nearest approach to the estimate of the gross receipts from the daily drawings would place the amount at about $2,028,240. This would mean that the total receipts of the company was about $30,028,240.

MONTE CARLO.

Adolph Smith, in his work on Monaco and Monte Carlo, estimates the year's receipts at £1,600,000 in 1912.

We have recently had a conference with a former employee of the company which operates the casino. This gentlemen stated that the receipts of the company ranged from five to twelve million dollars per year.

Mr. Hiram S. Maxim, in his book on Monte Carlo, published in 1904, states the bank won £1,000,000 a year. Estimates of the gross amount of money wagered compared to the receipts of the bank varied from the ratio of 60 to 1 to the ratio of 100 to 90.

[Monte Carlo, by Sir Hiram S. Maxim, London, Grant Richards, 1904, pp. 8–9.]

"Some years ago I found myself in a train approaching Monte Carlo. I divided my time between admiring the beautiful scenery and studying the guidebook, which purported to give all particulars, technical and otherwise, concerning the gaming tables.

"According to this book, the average relations between the players and the bank were as 60 is to 61, and the winnings of the bank were £1,000,000 a year

This appeared to indicate to me that the players of Europe and America took £61,000,000 to Monte Carlo every year, staked it, won back £60,000,000, and left £1,000,000 with the bank.

"The magnitude of these figures staggered me. I could not understand it. Surely it could not be true. Still if the bank actually won £1,000,000 sterling a year, and its chances were only 1 in 60 better than the players', it was quite evident that £61,000,000 must have been staked.

"However, upon visiting Monte Carlo and carefully studying the play, I found that instead of the players taking £61,000,000 to Monte Carlo and losing £1,000,000 pounds of it, the total amount probably did not exceed £1,100,000, of which the bank, instead of winning, as shown in the guide-book, about 1½ per cent, actually won rather more than 90 per cent; therefore the advantages in favor of the bank instead of being 61 to 60, were approximately 10 to 1."

ANALYSIS OF MR. BOYLE'S ESTIMATE OF THE TOLL IMPOSED BY FUTURE TRADING ON CROP PRODUCTION.

Mr. Boyle estimated the total commissions for future trading on the Chicago Board of Trade at $9,310,125, based on a volume of 11,005,800,000 bushels of future trading. He applied this to the estimated production of corn and oats which he figured at 4,000,000,000 bushels (which he stated usually averaged somewhat over 4,000,000,000 bushels). By applying the $9,310,125 to this figure he found the toll to be nine-fortieths of a cent per bushel.

	Bushels.
The average production of corn from 1911–1919, a period of 10 years, was	2,770,935,400
Of oats for the same period	1,296,984,500
Average of corn and oats	4,067,919,900
The average amount of corn marketed for the period was	530,682,100
The average amount of oats marketed for the period was	377,783,300
Average of corn and oats	908,465,400

If he applied his $9,310,125 to this amount which is the grain which goes on the market he would have found that the cost would be 1.31 cents per bushel instead of nine-fortieths of a cent per bushel.

	Bushels.
The receipts of corn at Chicago in 1919 were	65,894,000
The receipts of oats at Chicago in 1919 were	88,939,000
Total oats and corn	154,833,000

Applying $9,310,125 to this figure gives a cost of 6 cents per bushel.

REVISED ESTIMATES OF TOLL IMPOSED BY FUTURE TRADING ON WHEAT, CORN, AND OATS ON THE CHICAGO BOARD OF TRADE.

Using the estimate of Federal Trade Commission of 18,414,000,000 bushels based on 21¼ months (1914–1916) and applying Mr. Boyle's percentage we find the toll to be $15,651,900. Applying this figure to the average of wheat, corn, and oats marketed (shipped out of county where grown), we find—

	Bushels.
The average for wheat for 1915 and 1916 to be	497,234,000
The average for corn for 1915 and 1916 to be	505,706,500
The average for oats for 1915 and 1916 to be	410,457,500
Average of three grains	1,413,389,000

Applying $15,651,900 to this figure we find the toll to be 1.1 cents per bushel. When we apply it to the average receipts of these three grains at Chicago during 1915 and 1916 which were 351,541,500 bushels, we find the toll to be 4.4 cents per bushel.

A TYPICAL EXTRACT FROM A TICKER ON THE CHICAGO BOARD OF TRADE, JANUARY 29, 1921—CLOSING GRAIN REVIEW.

Wheat.—Houses acting for prominent local and eastern operators were aggressive sellers, and pit traders followed the lead, forcing values down to new low levels on the present downturn; buying was largely confined to profit-taking

by shorts on the way down, and the market showed few recoveries. Receipts were estimated at only 15 cars and met with a sluggish demand; shipping sales only 5,000 bushels. There was a report of 150,000 bushels worked for export, but it was said this was old business. Broomhall quoted Argentine wheat [illegible] cents cheaper than the American C. I. F. Europe. Minneapolis quoted strong cash premiums and some improvement in the flour trade, but this had little effect on the market here. Indications of smaller receipts in the Southwest were also ignored. Primary receipts were 991,000 bushels, against 860,000 a year ago. Total for the week 7,127,000, against 4,635,000 bushels a year ago.

Corn.—Lowest prices of the season were made shortly after the opening on selling by the same interests that sold wheat. Buying was confined to profit taking by shorts. Receipts were estimated at 375 cars. Cash prices sold about 1 cent lower, which left the basis about one-fourth to one-half cent stronger. As compared with futures, shipping demand slow, with sales reported only 5,000 bushels. Primary recepits 1,349,000 bushels; last year, 1,073,000 bushels; total for the week, 11,766,000 bushels, against 5,047,000 bushels a year ago. Country offerings to arrive moderate, and weather forecast is for colder and unsettled conditions, which may interfere with movement.

ESTIMATED COMMISSIONS PAID ON FUTURE TRADING, CHICAGO BOARD OF TRADE.

If we assume the future trading to average 18,414,000,000 bushels, as computed by the Federal Trade Commission, based on 21¾ months, 1914–16, and apply the averages of Mr. Boyle, which were as follows:

52 per cent of trading in futures by members for themselves (and which carried no charges)	9,575,280,000
28 per cent of trading in futures by members for other members (and which carried only half rates)	5,155,920,000
20 per cent of trading in futures by members for nonmembers (and which carried full charge for commission)	3,682,800,000
100 per cent. Total	18,414,000,000

COMMISSIONS.

One-half charges on 5,155,920,000 bushels equals (½ of ¼ cent per bushel)	$6,444,900
Full charges on 3,682,800,000 bushels equals (at the rate of ¼ cent per bushel)	9,207,000
Total	15,651,900

MINIMUM PRICE OF WHEAT.

Lever Act, August 10, 1917, section 14, named a minimum price of $2 per bushel for the 1918 wheat harvest. "Differentials were to be set up for the several standard grades of wheat, based upon No. 1 northern wheat at Chicago or its equivalent at the principal interior primary markets."[1]

"FAIR PRICE" OF WHEAT[2] BECAME MINIMUM AND MAXIMUM PRICE.

August 30, 1917, "Fair price" committee recommended $2.20 to be the price for No. 1 northern spring wheat at Chicago. This price was made applicable to the 1917 crop, and on February 21, 1918,[3] the President made the price applicable to the 1918 harvest, thus raising the minimum price established by Congress at $2 to $2.20.

Jine 21, 1919,[3] the price of wheat was raised to $2.26 to offset increase in freight rates.

[1] See page 61, Price Bulletin No. 3, Government Control Over Prices: War Industries Board.

[2] See page 63, Price Bulletin No. 3, Government Control Over Prices: War Industries Board.

[3] See page 64, Price Bulletin No. 3, Government Control Over Prices: War Industries Board.

September 22, 1918,[1] Presiden, by proclamation, extended the guaranteed price of $2.26 for No. 1 Northern spring wheat at Chicago to the 1919 crop if offered for sale before June 1, 1920.

On May 11, 1917,[2] the Chicago Board of Trade had prohibited trading in May wheat futures and had compelled the settlement of all outstanding contracts at $3.18 a bushel.

Also a bill by Mr. Steenerson:

[H. R. 14667, Sixty-sixth Congress, third session.]

A BILL To regulate grain exchanges.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That every organization within the United States, of whatever form or kind, maintaining or operating a regular place of business or trading room for members only, in which the members sell or exchange grain for themselves or others in interstate or foreign commerce, or buys or sells or ships or handles grain in interstate or foreign commerce, in accordance with the Grain Standards Act of the United States or the grades and standards prescribed by the Secretary of Agriculture pursuant to or under authority thereof, is hereby declared to be a public market, and subject to the provisions of this act.

SEC. 2. That every such market, whether heretofore or hereafter organized, shall be open to membership, with equal rights and privileges with all other members, to any person, firm, company, or corporation desiring to trade in such commodity on such market who shall make application for membership and whose methods of business, operation, or plan of organization shall not conflict with or contravene any reasonable rule, regulation, or by-law of such market. All members shall be required to comply with all reasonable rules, regulations, and by-laws of such organization, which may include the payment of a reasonable membership fee and reasonable assessments equally applicable to all members. The words "company" or "corporation," herein designated shall include cooperative associations organized under the laws of the United States or of any State. Any rule, regulation, or by-law of such market which shall be designated or construed as controlling, limiting, or modifying articles of incorporation, constitution, or by-laws, of any association, company, or corporation in the distribution of its profits to its stockholders and members shall be deemed to be unreasonable and void.

SEC. 3. That every such organization which shall adopt any rule, regulation, by-law, or order of whatever kind or form, or which makes any order in violation of the provisions of this act, or which shall refuse or unreasonably delay to admit any such applicant to full and equal membership in such organization, or which shall refuse to trade or deal with any member or permit any member to refuse to so deal with any other member on an equal basis with all other members, or which shall adopt, prescribe, construe, or apply any rule, order, or regulation which shall have the effect of, or tend to avoid or violate any of the provisions of this act, is hereby declared to be a monopoly in restraint of trade and a violation of the antitrust laws of the United States, and further trading in said market or organization, either by the organization itself, or any member thereof, shall be unlawful.

SEC. 4. That whenever any such organization, or any officer or agent thereof, shall violate any of the provisions of this act, the Attorney General of the United States shall institute appropriate proceedings in the name of the United States to enforce compliance with the provisions of this act, and to restrain such organization and all members thereof from thereafter continuing in such violations and from any further trading in such market, either directly or indirectly.

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[1] See page 67, Price Bulletin No. 3, Government Control Over Prices: War Industries Board.

[2] See page 62, Price Bulletin No. 3, Government Control Over Prices: War Industries Board.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., January 28, 1921.

Mr. L. G. HAUGEN,
Clerk Committee on Agriculture, House of Representatives.

DEAR MR. HAUGEN: I have a letter from that man that testified against the bill that had not read it, and think this letter should go in the hearings. I am inclosing it herewith.

Very truly, yours,

J. N. TINCHER.

MINNEHAHA NATIONAL BANK,
Sioux Falls, S. Dak., January 24, 1921.

Hon. J. M. TINCHER,
Washington, D. C.

DEAR SIR: I have read carefully the copy of your bill (H. R. 14657) which you asked me to read at the time of hearing before your committee on January 12. I have also discussed it with several individuals who I know have been in a position to give the matter careful study and whose interests would be in favoring such a bill if they were satisfied that it would be to the interest of the producers to do so. Some raised the point that it would legalize speculation although protecting legitimate hedges. Others believe that it would materially restrict the market.

The executive committee of the South Dakota Bankers' Association, by whose direction I appeared before you, understand that an extended investigation of the whole market system has been under way for some time by a committee of 17 of the American Farm Bureau Federation, and that no report has been made up to this time. We understand that the Agriculture Department, through the Bureau of Markets, has made an extended investigation. The report does not suggest a radical change in the operation of grain exchanges or at least the judgment of the investigators is not unanimous in that respect.

The South Dakota Farmers Grain Dealers' Association, through the secretary, Mr. E. H. Eyler, of Sioux Falls, informs me that the grain dealers' association are working upon the solution of the marketing question, which they believe will eventually lend aid in better marketing conditions and until such time Mr. Eyler does not believe that radical legislation should be had. The situation is certainly serious for agriculture, and I am sincere in the hope that there will be some relief, as my personal interests are entirely involved in the future of agriculture, and I am sincere in the hope that some solution will be submitted, as it does not seem evident there is any insight that will overcome conditions.

I thank you for your courtesy at the hearing, and I came away with the belief that it will be the desire of your committee to find some satisfactory relief for agricultural interests, if possible.

Very truly, yours,

H. V. HARLAN, *Vice President.*

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Thursday, January 27, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. A number of inquiries and suggestions have been received on H. R. 15373, introduced by Mr. Osborne, on which we held hearings some time ago. It has been suggested that this bill be referred to the Department of Agriculture for a report. What is the pleasure of the committee? [Pause.] Without objection, the bill will be referred to the Secretary of Agriculture with the request that the committee be advised of his views on the bill.

The following letter has been received from Mr. Charles A. Lyman, secretary of the National Board of Farm Organizations:

NATIONAL BOARD OF FARM ORGANIZATIONS,
Washington, D. C., January 26, 1921.

Hon. GILBERT N. HAUGEN,
Chairman Agricultural Committee of the House,
House Office Building, Washington, D. C.

DEAR MR. HAUGEN: I have submitted to Congressman Tincher a copy of a letter which I wrote November 15 to Dr. Ladd, of North Dakota, to indicate to him the importance of summoning before your committee, now investigating the subject of future trading, Judge John M. Burns, of the solicitor's office of the Department of Agriculture.

Judge Burns has had exceptional opportunities to investigate the evils of future trading, and from many talks with him I think it of the highest importance that he be summoned as a witness before your committee.

This should be done as soon as possible, as I understand that Judge Burns may be leaving the city within a few days.

Respectfully,

CHAS. A. LYMAN, *Secretary.*

What is the pleasure of the committee?

Mr. McLAUGHLIN of Nebraska. Mr. Chairman, I will say that I had a talk last night of about two hours with Judge Burns, and if the committee can give him the opportunity and if Judge Burns can back up with evidence what he seems to know offhand, I think it would be well worth the time of the committee to hear him, and if we wanted him I think we could get him on a few hours' notice. He is right here in town and may be here to-day.

The CHAIRMAN. It is customary to hear officials of the department, but as a matter of courtesy, I would suggest that the Secretary of Agriculture be invited to send whoever he may desire to have appear.

Mr. McLAUGHLIN of Nebraska. I am not in favor of delaying the hearings, but I do not think this would constitute a delay, since we are hearing Mr. Thorne, and we could well set aside a couple of hours, or whatever is necessary, to hear this gentleman. We are gaining something, and there is nothing for us to lose.

Mr. YOUNG. I feel this way about this bill: Of course, my State produces some wheat, but I do not really live in a wheat section. I understand, in a general way, that several people in the wheat belt have their own marketing. We, as you remember, years ago went through the same trouble in our cotton futures business and passed a law that did some good, although it probably needs some amendment; but for my own mind, I do not know just what ought to be done, but I am inclined to follow in my vote the gentlemen from the wheat belt in the solution of this question, and when they get their minds made up after the hearings are concluded my present inclination is to follow their desire in the matter, because I realize they are in closer touch with the situation than I am, and I want to do what is best for the wheat trade. That is my present inclination, and if these gentlemen can give added information that you gentlemen from the wheat belt think necessary, it is all right with me.

Mr. TINCHER. I do not want to be in the attitude of objecting to the gentleman giving testimony, but I want to see some bill reported out of this committee, and I am going to make a motion at some time to report out a bill, and I do not want anyone to rise up and say, "You delayed the hearings by asking for further time," and I am

not going to ask for it, but I am not objecting to hearing the gentlemen. I am always glad to hear any man who has information on the subject, but I am in favor of trying to get legislation and that was the reason I introduced my bill.

The CHAIRMAN. If it is the pleasure of the committee, we will hear Judge Burns at such time as suits the convenience of the committee and the Secretary of Agriculture, and also whoever the Secretary may desire to have appear.

The CHAIRMAN. Mr. Thorne, we will be glad to have you continue.

STATEMENT OF MR. CLIFFORD THORNE, CHICAGO, ILL., GENERAL COUNSEL AMERICAN FARM BUREAU FEDERATION AND FOR THE FARMERS' NATIONAL GRAIN DEALERS' ASSOCIATION—Resumed.

Mr. THORNE. At the conclusion I was stating the attitude of presidents and secretaries of State organizations. Since that summary was made I have received four more replies. I think now I have heard from all the States except one; that is, having heard from 22 people. The former record plus this record will show the number. The reporter took the former letters with him and I do not have them at hand now. The president of the Colorado organization answers "No" to both questions.

Mr. PURNELL. May I interrupt you there, Mr. Thorne? Would it be convenient for you to read those questions again so we may have them in our minds?

Mr. THORNE. "First. Do you favor legislation eliminating speculation in futures from the grain markets, providing the opportunity to hedge is preserved?" Answer: "No."

"Second. Do you favor legislation eliminating speculation in futures from the grain markets, even though it would restrict or prevent hedging on the markets?" Answer: "No." The gentleman's name is V. H. Hamilton, of Longmont, Colo., who is president of the Cooperative Elevator Association of that State.

The next letter is from Mr. Craninger, Grand Rapids, Ohio, and to the first question he answers: "Do you know you could hedge if you do away with short selling?"

Answer to the second question: "As above. I do not see any good in fooling with the present manner."

The next letter is from John Miller, president of the Illinois association, and in answer to the first question he says, "Yes"; that he favors legislation eliminating speculation in futures on the grain markets providing the opportunity to hedge is preserved. In answer to the second question he says, "No"; that is, he is not in favor of eliminating speculation in futures from the grain market if that would restrict or prevent hedging on the markets.

The next letter is from Mr. Lane, of Sherwood, N. Dak. He favors the first proposition. In answer to the second proposition, he says, "I am opposed to taking any step to eliminate hedging."

As a result of the 22 letters which I now have reported, I believe two of them answer "No" to both questions, and Mr. Eyler is not particularly interested and doubts the wisdom of it. All of the balance, 19 in number, save 1, were in favor of eliminating speculation providing it did not restrict or eliminate hedging. That one was in favor of eliminating speculation whether it left hedging or

did not leave hedging, being Mr. Cottington, president of the Iowa association.

The organization in the State of Nebraska, of which association Mr. Shorthill is secretary, made no reply that I have been able to find.

Mr. TINCHER. We have a telegram from Mr. Shorthill himself in the record stating his views. That is the same Mr. Shorthill, is it not?

Mr. McLAUGHLIN of Nebraska. Yes.

Mr. THORNE. These gentlemen have not had an opportunity of listening to the testimony that you have heard from various witnesses. They have not had the opportunity of going extensively into this analysis of facts as they exist. This was simply an attempt of mine to find the offhand straw vote on the proposition from people who are in the grain trade handling country elevators.

The subject I want to speak briefly about is manipulations on the markets. I have in front of me a paid advertisement by the Chicago Board of Trade, as follows:

WHY WHEAT PRICES DROPPED.

Findings of the Federal Trade Commission, which was directed by the President to investigate the causes of the decline in wheat prices, made public at Washington, December 20, were as follows:

1. The outlook for an increased world supply.
2. Concentrated buying by foreign Governments last spring and slack purchases later.
3. "Unprecedented" importations from Canada following an "unprecedented" yield and a discount in rate of exchange.
4. The record-breaking yield of corn and the large yield of oats.
5. The slackening in domestic demand for flour.
6. The general tendency toward commodity declines.
7. The change in credit conditions "with resulting disposition of distributors to refrain from accumulating usual stocks."

The report says further:

This is the part of the advertisement to which I want to direct your attention:

The limited evidence available does not establish manipulation of wheat prices by large operators in futures nor that the recent low average or downward trend of wheat prices has been due to speculative manipulation.

The study of marketing of grains is one of absorbing interest now being taught in many colleges. Literature on this subject will be sent free to growers, grain handlers, and others legitimattely interested. Simply send request for "literature" to the Chicago Board of Trade and it will be sent immediately. Do it to-day—now.—Chicago Board of Trade.

That quotation, gentlemen, was taken out of the next to the last paragraph of the press report issued by the Federal Trade Commission, page 4, the press report being dated December 20, 1920. In that paragraph they omitted the following two sentences. They quoted one sentence but left out two sentences, which I want to read to you:

The commission has not had the opportunity to obtain directly the figures which would determine conclusively whether large transactions in futures of a manipulative nature have occurred. It has sought but has not been able to secure the cooperation of the officers and directors of the Chicago Board of Trade deemed necessary for the collection of pertinent information in this matter.

These two sentences were omitted from the paragraph when it was reprinted. We have been able to secure some cooperation from the Chicago Board of Trade, fortunately. This question of whether

speculation does give rise to manipulation or whether there are manipulations on the market is of keen interest and of great importance in your considerations and deliberations. If it is a fact that the law of supply and demand and the economic forces are those determining entirely the fluctuations in prices, we have not much of a case. If the Federal Trade Commission has been unable to get facts as to manipulations, it is unfortunate, but a gentleman formerly connected with the Chicago Board of Trade and, as stated the other time, a former member of the board of directors, a man who was a member of the exchange for over 20 years, has written what is recognized as a very reliable history of the Chicago Board of Trade, and I should like to cite just a few passages demonstrating the possibilities and actual existence of constant manipulations on the Chicago Board of Trade.

Mr. YOUNG. How recent a work is that?

Mr. THORNE. 1917. I will begin in 1881.

Mr. MCLAUGHLIN of Michigan. That was 40 years ago.

Mr. THORNE. We will bring it right down to date before we are through.

The CHAIRMAN. Will you give the name of the author?

Mr. THORNE. Yes; Charles H. Taylor.

(Extracts of "History" are incorporated as follows:)

Scarcely a month of the year 1881 was free from cornering operations in some branch of the trade. In January there was the beginning of a big wheat deal by Wall Street parties. In February Armour began operations in pork as above stated, causing a sudden rise in prices. In March there was additional excitement in the wheat pit. In April a shortage developed in rye which sent the price of No. 2 rye 10 or 15 cents above No. 2 spring wheat, and which caused rye to be shipped to Chicago from the Lake Ontario region. Toward the end of the month of June there were advances both in wheat and corn, with Armour coming into control of the wheat market. In July began the great battle of the speculative giants, both in corn and wheat, which was to bring both success and ruin in its train. The month closed with one of the biggest corners in oats the market had ever known. The price touched was the highest since the famous Chandler corner, and the settlement price was fixed at 45 cents, while "rejected" at the close of July sold at 27 cents. Large settlements were made the last of the month and there was a considerable amount defaulted, Wall Street operators defaulting on 1,000,000 bushels. It was in July, also, that the "Cincinnati clique" laid the foundation for the great corner in August wheat. The excitement in the wheat pit increased with every day during August. By the 20th there was an excited bull market, and it was stated that the galleries of the exchange were thronged with visitors and that there had never been a week in the history of the board of trade when speculation was so enormous. The volume of business was so great that the settling clerks struck for a 100 per cent advance, and got it, and they were said to be making from $10 to $25 per day. A false rumor of the death of the President caused momentary depression, but the bull movement could not be stopped, and by August 25 the Cincinnati clique had forced the price of No. 2 wheat up to $1.36 and had commenced buying September and October wheat. Rumors of hot wheat sent September and October prices down, September falling 5 cents August 29, and Cincinnati crowd selling large quantities. A special committee of the board was appointed to investigate the warehouse conditions. The committee found most of the wheat in good condition. The bears sustained severe losses in the August wheat deal and the profits of the Cincinnati people were reported at $3,000,000. They were so jubilant that they gave lavish presents to attachés, Mr. Handy giving his broker a valuable house and lot in Chicago. These great profits entailed equally great losses, and it was at this time that the well-known firm of John W. Rumsey & Co. was forced to suspend. (History Board of Trade, Chicago, vol No. 2, p. 621. Year, 1881.)

The history of the board of trade is thickly strewn with corners. In addition to several speculative squeezes, which were submitted to without a murmur,

there were so many appeals to the governing powers that 1882 may be long remembered as the great "committee" year. There were not less than four sets of defaulted contracts on wheat, namely, in April, June, July, and September, and another in oats for July, all of which were passed upon by committees. Besides these committees were called on corn for August, lard for September, and short ribs for October; but the difficulties were adjusted between the parties before it was time for the committees to sit. There were two or three corners in oats besides those above referred to. The flaxseed department went through the cloud, but it turned out to be only a mist, and there was a relic of trouble in barley at the beginning of the year.

The year may possibly be best described as a year of great contention. From being the skirmish ground for men of thousands, the Board of Trade of Chicago had become the battle field for men of millions. These interests were great and formidable and were disposed to stand upon their rights until the last resource of money and brains and legal machinery had been exhausted. (History, Board of Trade, Chicago, vol. No. 2, p. 636. Year 1882.)

A very considerable sensation was created upon the occasion of the opening of the New York Produce Exchange Building in May. The Chicago Board of Trade sent a delegation for this occasion, headed by its president, E. Nelson Blake. At the banquet Hon. Chauncey Depew, the orator of the evening, took occasion to attack "the Chicago grain gamblers." This was resented as a direct and deliberate insult by President Blake, and he immediately rose in defense of the board of trade, saying, among other things, that New York men had partners in Chicago and private wires to the exchange, and it could not be that the New Yorkers were "bankers" and the Chicago partners "gamblers." President Blake's prompt defense of the board was heartily approved upon his return to Chicago. (History Board of Trade, Chicago, by Taylor, vol. 2, p. 690. Year 1884.)

Corners used to come on the board of trade once in a year or two. Now there are corners almost all the time. The Chicago corner used to be the venture of some local Titan and was felt only within the then provincial jurisdiction of the board. Now it is often the cosmopolitan work of the combined capitalists of half a dozen cities, and its effects, as the London Times said of the pork corner of 1880, are felt in advancing prices all over the world. When 6,000,000 bushels of wheat were handled by a syndicate 10 years ago it was felt in predatory circles that the civilization of the nineteenth century had about reached its grandest height, but 60,000,000 bushels of corn and 20,000,000 bushels of wheat are now pocketed almost without exciting remark. The corner generally used to fail, but the accumulative experience of many collapses has not been in vain. Such mistakes are not now made as that of the wheat corner of 1872, which was begun in the face of the harvest and was drowned out by the rush of wheat from the farmers, who dropped all other work and dried the green wheat in stoves, pots, tin cups, anything in which it could be heated, with the result of forcing down prices on themselves of 47 cents in 24 hours. During the wheat corner of 1879 three out of every four flouring mills of the country were kept idle for over two months. One of the oldest members of the produce exchange prepared for the legislature an estimate that the syndicate, by not selling and by not letting others sell, and by fleecing those who had been inveigled into dealing with them and by the injury that had been done to the millers, the shipping interests, the exporters, and the consumers of flour, had caused a loss to the country of not less than $300,000,000. (History Board of Trade, Chicago, by Taylor (who quotes from the statement of H. D. Lloyd in the North American Review of August, 1883), vol. 2, pp. 674–675. Year 1883.)

Armour took hold of the mess pork market during the spring months, steadily forcing prices upward, closing a corner in August pork at the top price of $27.50. It was reported that Armour made $2,500,000 on this deal. (History, Board of Trade, Chicago, by Taylor, vol. 2, p. 698; year, 1884.)

The markets for the year 1885 were singularly free from large manipulation and the business transacted was of the ordinary commission character with the speculative trade chiefly in the hands of scalpers. (History, Board of Trade, Chicago, by Taylor, vol. 2, p. 721; year, 1885.)

The tendency of the markets was upward during the first part of January, with rye reported scarce, and a bulge in oats to 43½ cents on the 8th. Amusement was caused by the figures compiled by the board of trade for the previous year which showed that shipments exceeded receipts by 8,000,000 bushels of corn, 4,000,000 bushels of oats, and 77,000 bushels of rye. It was declared that

this "spoke well for Chicago as a producer of grain," and Secretary Stone explained the discrepancy by saying the western roads were careless in their reports. The provision trade was pleased with the fact that the meat inspection law of Virginia was declared unconstitutional and steps were taken to test the Georgia law imposing a license tax of $500 on agencies for packing houses, and the produce trade rejoiced that a reduction had been recommended in French tariffs. Near the middle of the month the operations of Partridge, as a bear, became the prominent market feature, but Hutchinson entered the lists against him, uttered his famous threat and forced the market upward. Partridge had sold short a line of wheat estimated at 6,000,000 bushels and the duel which followed was one of great interest. On the 27th Partridge made a determined raid upon the market, beginning his operations in the open board and forcing wheat 1 cent lower. Every step of the way was contested by Hutchinson and on succeeding days the market turned and by the first days of February Partridge was hard hit, with losses estimated at $500,000, he having been short about 5,000,000 bushels of wheat, 3,000,000 bushels of corn, and 2,000,000 bushels of oats, with an average loss of about 4 cents per bushel. This was a severe lesson to Partridge and was said by many to be but a part of Hutchinson's revenge for a remark which Partridge contended was made in friendliness. (History, Board of Trade, Chicago, by Taylor, vol. 2, p. 819; year, 1891.)

The corn pit furnished the chief market excitement during November and December. The traders woke up to the fact that there was danger of a corner about the 20th of November, and the covering by the shorts advanced the price at that time to 60 cents. The clique strengthened its hold, and by the 27th was able to run the price up to 80 cents. This was the top price and was not maintained. On November 30 corn opened at 70 cents, but soon rose to 75¼, at which price some 250,000 bushels were covered, leaving about 100,000 bushels in default. One feature of the day was an injunction served upon the Ryan Commission Co., restraining them from settling for or delivering 40,000 bushels of corn for H. B. Schloss & Co., who claimed that they had sold this corn at 49 to 49½ cents, that they had the corn at Memphis, but were unable to deliver it on account of the rail blockade, and that there had been a conspiracy to advance the price above the real market value. Five firms were said to be interested in this manipulation and it was an open question as to whether they made or lost by it, as they bid corn up to $1.10 in the New York market in order to establish the Chicago quotation as a fair shipping price, and they were left with some 1,750,000 bushels, bought at about 60 cents, on their hands. Many defaults were settled at 75 cents, but others claimed the right to settle at the average for the day, which was considerably less. With the close of the manipulation, cash corn fell to 46½ cents, a decline of 28½ cents. The November manipulators sold year corn freely, buying January, thus going short and being caught when the railroad blockade cut off receipts and the price was forced from 48¾ cents up to 60 cents. The corn in store at this time, December 9, was only about 300,000 bushels and the elevators bought No. 3 corn in order to kiln-dry it for delivery as No. 2. (History, Board of Trade, Chicago, by Taylor, vol. 2, p. 829; year 1891.)

Conservatism, ultra-conservatism, was the business rule, forced by stern necessity at first and prolonged by timidity taught by panic. Thus it was that, on the board of trade, while men still struggled for gain, and by foresight won, or by lack of foresight lost their fortunes, there were no attempts at large manipulations, and the markets throughout the year were controlled by natural laws and not by artificial movements. Money became plentiful before the year had ended, but there were few who cared to use it in commercial adventure or for any purpose that was not sure and safe. (History, Board of Trade, Chicago, by Taylor, vol. 2, p. 873; year, 1894.)

An old-fashioned wave of speculation was experienced in the early spring when it became apparent that the soft winter-wheat crop of the country was cut in two by the severity of the winter. A big bull market was started, causing the most radical advance in wheat prices experienced in several years. Commission houses had business enough during the two or three months of activity to bring up their earnings for the whole year, although previous to this time and during the last few months of the year the speculative trade was not especially active. After the speculative hysteria, due to the big shortage in soft winter wheat, was over there was a decline in prices of about 33

ents from the top prices in the spring to the low point of the fall. May wheat sold at $1.19, and in the late fall the May, 1913, future sold at 88½ cents. Liquidation of long lines was drastic, with the result above mentioned, of placing values on a sound merchandise basis. One good effect of this crop scare was to allow the sale of the burdensome stocks that had been accumulated at Chicago as the result of the long-drawn-out speculative deals. The unwieldly load of several million bushels of red winter wheat taken on delivery and some of it carried for nearly two years was easily disposed of at a figure which made up to a large extent for the enormous expense of carrying it for several months. (History, Board of Trade, Chicago, by Taylor, vol. 2, p. 1183; year, 1912.)

One of the most important and far-reaching decisions of the Supreme Court of the United States as affecting the board of trade was a decision which was handed down on the day of the annual election and which detracted somewhat from the interest taken in that event. This decision forbade the cornering of interstate commodities, and in the decision the criminal proceeding against James A. Patten and others was remanded for trial. The case grew out of the cotton deal of 1910, in which Mr. Patten and others obtained control of the "futures" market on the New York Exchange and reaped profits estimated to be about $10,000,000. The decision meant that all corners in wheat, cotton, corn, oats, lard, coal, or any other commodity were to be illegal and in violation of the Sherman antitrust law. The court did not say that the purchase of futures was in itself a violation of the law, but that when there was a purchase of more than the available supply and at the same time the commodity was withheld from sale a "corner" was constituted. (History Board of Trade, Chicago, by Taylor, vol. 2, p. 1187; year, 1913.)

Now, the board of trade has passed certain rules which have as their purpose making it difficult to cause corners; for instance, the appointment of a committee to fix the commercial value of wheat unable to be delivered, and also the receipt of grain at other places than in the regular warehouses, a special ruling, made, I believe, during the Leiter movement, and yet in spite of these attempts we find that last September, of 1920, one of the greatest corners for many years was effected on corn. The next day after the last delivery date the prices on cash corn declined approximately 20 cents in 24 hours. The prices on the 29th were $1.26 to $1.29; 30th, $1.27 to $1.30½; October 1, $1.03 to $1.10.

There was a corner in lard in November. If you gentlemen desire to get the facts and information as to these matters, the proper source is to ask a member of the exchange to testify. I do not think there is one who will deny either statement I just made as to two corners in the last of 1920.

Here is a little chart as to the effect of future market prices.

Mr. WILSON. Mr. Thorne, before you leave this subject of corners I notice you have made a very great study of it, and you have followed it for some time.

Mr. THORNE. You are in error if you say I have made a great study of it. I have given you some quotations from an authoritative source.

Mr. WILSON. I will say, more than most people, and I presume more than any Member of Congress has given it, and you are familiar with the subject and have given me information about it. Of course, everybody appreciates the situation with reference to a corner or any one trying to manipulate the market. There is no question about that, and I would like to see some law passed to prohibit it, the same as you would, but what is usually the result of those corners? Do not the producers of the grain usually receive a very great benefit by these high prices and the corners are always in the bull end of it?

Mr. THORNE. In reply to that, I want to say that any artificial manipulation of the market interferes with this wonderful instrumentality which has been described as hedging. Further, I want to say that the people who generally profit on corners are not the growers of the grain. Anybody experienced in the grain trade will know that, and, further, I want to say that if a corner results in very excessive prices, the reaction is almost inevitable for it to be in the other direction, and as a general rule you will find the producer will be able to market the bulk of his commodity when it is in the other direction; and, further, I want to add that the producer is not anxious to get excessive, corner prices. He wants a fair, stable market, and that is what he is seeking.

Mr. WILSON. That may be true, Mr. Thorne, but of course I have never seen anyone yet who would not take all they could get for any of their products. There may be some, but I have not found them. My observation, limited as it has been, has been that when those corners were going on, with the attendant high prices of grain, farmers generally sold their products. I have had this experience, which gives me some knowledge of it: A good many years ago George H. Phillips tried to get a corner on corn, and the price of corn did go up considerably. I know that at that time it was the common report in the press, and I know that it was the general understanding, that the great quantity of corn that was held in this country by the farmers was sold at a very large price, and it was generally understood that they profited very materially from the work of Phillips. I was just wondering whether the farmers did not usually take advantage of those better prices when these manipulations were going on in the market. I was wondering what was your information along that line. I think you will find that there is a lot of benefit derived by the farmer from those corners. I do not wish to be understood as approving the corner.

Mr. THORNE. I am just wondering whether you are a champion of the corner.

Mr. WILSON. No, sir; I told you at the outset that I would gladly do anything I could to stop such manipulation of the market.

Mr. THORNE. I want to say one word in reply to one sentence in the statement you made, and that is that farmers generally sell at the high prices or on the high market. The facts shown by the first chart that I have introduced prove directly the opposite. Here is a chart [indicating] that I want to show you in connection with these prices beginning with the 1st of June. The chart covers the period from June 1 to the last of December, 1920. The red line, as you will see, represents the futures market and the black line represents the cash price. I presume this has reference to No. 2 hard wheat. From July 1 to July 15 the range is indicated from $3.30 to $2.70——

The CHAIRMAN (interposing). Or a spread of 50 cents?

Mr. THORNE. That is wrong. It is $3 instead of $3.30. The range is from $3 to $2.70.

The CHAIRMAN. Or a spread of 30 cents?

Mr. THORNE. Yes, sir; approximately. As I remember the accurate figure, it was 28. Then, from that time, or from July 15 to July 31, we find a drop of more than twice the amount of the variation that occurred during that month and a half. In other words, in two weeks there was twice the amount of variation, and that oc-

curred at the time when futures were reestablished and there was no Government control of prices or no minimum price fixed.

The CHAIRMAN. What year do you have reference to there?

Mr. THORNE. 1920. Then, you will notice the variation since then; and the inquiry is suggested. Have futures tended to keep up these prices? You will notice that futures are almost all the time, with very few exceptions, below the cash market. That means that when a man is trying to hedge he has to make a loss of the carrying charge. The whole force and influence of the futures market, as you will see, has been to bring down prices. Again, when the upward movement comes, the red line would be above the line, probably. The futures market tends to exaggerate and intensify the price fluctuations. I think this chart graphically illustrates that proposition.

Mr. HUTCHINSON. If you start to work on this at a time when new wheat is coming in, will not that have its effect. With new wheat coming in, would not the price tend to go down?

Mr. THORNE. Yes.

Mr. HUTCHINSON. Is that fair, then, as an illustration?

Mr. THORNE. Yes; you could not claim that new wheat coming in would justify that decline.

Mr. HUTCHINSON. Yes; it would.

Mr. THORNE. From $2.70 down to $1.60 would mean a decline of $1.10.

Mr. HUTCHINSON. Does not the estimate of the amount of the crop have something to do with it?

Mr. THORNE. Yes; but Mr. Eckhardt's set of figures shows that when the volume of grain has been increased, or the estimated total volume, including the old and the new, the total volume was worth actually less than the total volume before. Although you have added—how many bushels of corn, Mr. Eckhardt?

Mr. ECKHARDT. Half a billion bushels.

Mr. THORNE. And the total quantity was worth how much less?

Mr. ECKHARDT. $1,645,000,000 less.

Mr. HUTCHINSON. Take the estimates for 1920, when the estimate on the new crop was nearly 800,000,000 bushels, and when the old wheat crop was practically out of the country; do you know what amount of wheat there was when this price was fixed?

Mr. THORNE. I do not know.

Mr. HUTCHINSON. Can you not give this committee the exact figures?

Mr. THORNE. Certainly, I will be delighted to have the figures; but you can not claim that those figures caused a decline of $1.10 per bushel. You can not make that claim.

Mr. HUTCHINSON. Wheat is coming down 3 and 4 cents per day every day now.

Mr. THORNE. I think, gentlemen, that this is very self-evident. The chart shows you that the futures market is below the cash price. The tendency of futures is just as I have stated. I have stated to you repeatedly that I do not claim that the market is now or ever would be free from the effect of the economic force of the law of supply and demand. I have repeatedly stated that. I have also stated that the existence of a futures market tends to accentuate and

exaggerate the fluctuations, and I think that this chart indicates that.

Mr. YOUNG. The futures market in grain is below the actual cash market of the grain?

Mr. THORNE. That is true.

Mr. HUTCHINSON. It is not always that way.

Mr. YOUNG. I do not know that it is always that way, but I know that is true of the cotton futures market. I know that it is sometimes several cents lower. What is in my mind is this: What force causes that thing to happen in the markets for those great commodities, and what must be the purpose behind those forces that so arrange the future quotations that they are lower than the actual spot value of the commodities that they are seeking to handle?

Mr. THORNE. That is a pretty big order, but I think this is what happens: If you and I were putting up a few bets, and a large crowd of people were engaged in the same occupation, regardless of what the commodity price was, our bets on the prices would vary much more than the actual value of the commodity would vary, and we would exaggerate the variations. If the bet involved 10 cents on the dollar instead of the whole dollar, and if large numbers of people were making a livelihood out of price fluctuations, that is what would naturally result. It is inevitable.

The question has arisen as to the effectiveness of a tax on futures. When it was first suggested, my thought was that the effect might be merely to add a burden to the producers. I studied the matter a good while, and talked with a good many people about it—that is, whether persons settling on the futures market would simply pay that much less. After considering that there would be actual grain on the same market, and the handicap under which the futures market would be operated, I have been led to believe that it would be effective as a restriction on the dealings, rather than a passing on of the burden.

Mr. YOUNG. We have tried that in the cotton futures act.

Mr. THORNE. I am especially convinced of it because the president of the Chicago Board of Trade has very positively declared that that would be the case, and every member of the board of trade whom I have heard say anything about the matter has confirmed that view. Every member, whether friendly or hostile, has confirmed that view, and on that proposition I am willing to take their judgment.

As to the legality of it, if it is not gambling, another question was raised, and that is: Can you prohibit something in that way, or would it be taking away the right of freedom of contract? On that issue there is one case that I want to cite, because that goes into the merits of the proposition very nicely. That case is Booth *v.* Illinois (184 U. S. Rep., 425, 429, and 430). Speaking of the Illinois statute, the court says:

> It is, however, said that the statute of the State, as interpreted by its highest court, is not directed against gambling contracts relating to the selling or buying of grain or other commodities, but against mere options to sell or buy at a future time without any settlement between the parties upon the basis of differences, and, therefore, involving no element of gambling.
>
> If, looking at all the circumstances that attend or which may ordinarily attend the pursuit of a particular calling, the State thinks that certain admitted evils can not be successfully reached unless that calling be actually prohibited, the court can not interfere, or unless, looking through mere forms

and at the substance of the matter, they can say that the statute enacted professedly to protect the public morals has no real or substantial relation to that object but is a clear, unmistakable infringement of rights secured by the fundamental law.

Now, in concluding this discussion, the Supreme Court of the State of Illinois says:

The practice of gambling on the market prices of grain and other commodities is universally recognized as a pernicious evil and that the suppression of such evil is within the proper exercise of the police power has been too frequently declared to be open to discussion. The evil does not consist in contracts for the purchase or sale of grain to be delivered in the future, in which the delivery and acceptance of the grain so contracted for is bona fide contemplated and intended by the parties, but in contracts by which the parties intend to secure not the article contracted for but the right or privilege of receiving the difference between the contract price and the market price of the article. The object to be accomplished by the legislation under consideration is the suppression of contracts of the latter character, which are in truth mere wagers as to the future market price of the article or commodity which is the subject matter of the wager.

The Supreme Court of Illinois further says:

The denial of the right to make such contracts tended directly to advance the end the legislature had in view and was not an inappropriate measure of attack on the evil intended to be eradicated. So far as that point is concerned, the act must be deemed a valid law of the land, and as such must be enforced, though it infringe in a degree upon the property rights of citizens.

The United States Supreme Court, after reciting these passages, states:

We are unwilling to declare these views of the State court to be wholly without foundation. and therefore can not adjudge that the Legislature of Illinois transcended the limits of constitutional authority when enacting the statute in question.

Even though this were not technical gambling that you are in effect prohibiting, it would still be perfectly constitutional, so far as that particular issue is concerned, if the legislative body having jurisdiction passed a law so far as its jurisdiction would go.

Now, as to the legality of the statute which effects that result by a tax, the child labor law, of course, presents that question very specifically. The Supreme Court has not yet rendered its decision in Johnson *v.* Atherton Mills. The case involving the cotton futures act is Hutton *v.* Terrell (225 Fed., 860). It raises this same issue. The cotton futures act was held invalid at first because it did not originate in the House, as it should have done, being a revenue measure. I think we are safe in concluding that a tax would be effective and valid. Until we get a decision from the Supreme Court on the child labor law, our conclusion must be based on the decision of the Federal court above cited.

There is one clause in the provision that has been suggested by Mr. Tincher and Senator Capper that I want to mention. It says that they may deal in future to the extent of three times the actual grain dealt in during the fiscal year, or that is the substance of the statement. Gentlemen, if that remains in the bill, I desire to ask you seriously to consider this question: Would it not be possible for warehouse receipts to be transferred from party to party on the market at the same price or at a slight variation which would be later offset, and thereby multiply the opportunities for future trading by three without having the grain in hand, except by virtue of

the warehouse receipts, which constitute constructive possession of the grain? In other words, would it not be possible to completely nullify the purpose of the law? I had that question up with several friends on the exchange, both with those friendly to us and with some hostile to us, and I have also put it up to a man not now on the exchange but who used to be quite a large operator, and all of them told me that my suggestion there is probably correct. If you eliminated the three futures, that objection would be removed, but if you eliminate the three futures, the question next arises where would you get a buyer for the offer if the buyer thought he would have to pay a tax if he did not get the real grain? I think the suggestion that we offered is worthy of your serious consideration, and that is that you give a reasonable time for business to adjust itself to the change and that you do not force the change at once upon business as it is to-day.

Mr. PURNELL. Do you still suggest a period of two years?

Mr. THORNE. Yes; and that has subsequently been confirmed, in my opinion, by the experience in Germany. I think that it would be very desirable to give us an opportunity to set up machinery or to improve the machinery.

Mr. WILSON. Who do you mean by "us"?

Mr. THORNE. I mean the grain industry.

Mr. WILSON. You do not mean the committee of seventeen?

Mr. THORNE. No; I would not ask that for the committee of seventeen, but I am referring to the grain industry. I think the committee of seventeen will propose something constructive, however. I want to say further that unless the exchanges are willing to let the cooperative companies go on the market, and unless we do get a correction of some of these other propositions, the argicultural interests of this country will arrange for their own exchanges.

Now, Mr. Gates and one or two others have made suggestions to this committee——

Mr. TINCHER (interposing). If I may interrupt you, I appreciate your suggestion. You have suggested a weakness in the measure, and I am frank to say to you that it is not anything new or anything I did not contemplate at the time of introducing the bill. I would like to have your suggestion of this proposition of whether or not, even after the expiration of two years, unless we permitted, or have some exception permitting what they call hedging, we will have the same old complaint. I realize and appreciate the fact that the 3-times provision offers an opportunity for abuse.

Mr. THORNE. It gives just three times as many, because of the warehouse receipt transactions.

Mr. TINCHER. I had that point in mind, and I realized the weakness of it, but I do not know just how to remedy it. I do not believe you have suggested how we ought to remedy that.

Mr. THORNE. You could not entirely correct that, because the same objection of inability to hedge will probably be presented two years later. However, in the meantime, business will have an opportunity to devise another method of insuring its grain. If you have futures contracts based upon an equivalent amount of grain, that might be one way to do it, or if you permit futures transactions of an amount equivalent to the amount of grain you actually have.

Mr. TINCHER. That could be negotiated in the transactions.

Mr. THORNE. That would not prevent various purchases from the buyer of the futures. Some other method might be devised to prevent the manipulation that I have described, but from the way it is worded now I feel that you have not eliminated the possibility of the manipulation that I have suggested.

Mr. TINCHER. I agree with you. I think it would eliminate the probability of it, but not the possibility of it.

Mr. THORNE. Mr. Gates and various other people have referred to Mr. Boyles's book on speculation on the Chicago Board of Trade.

The CHAIRMAN. Referring to the two-year limit, is that in the event the exchanges are abolished, or if futures trading is abolished entirely?

Mr. THORNE. Nobody is suggesting the abolition of the exchange.

The CHAIRMAN. I mean futures trading.

Mr. THORNE. Yes, sir. That suggestion was confined solely to the tax on futures trading.

Reference has been made repeatedly to this committee, I think, to the book which I have just mentioned. I have not yet had time to read that little book through. I have just glanced at parts of it. I understand that free copies are offered to members of Congress, or members of this committee, and that the book is circulated quite generously by the Chicago Board of Trade. There are one or two things that I want to call your attention to in that connection.

The first one is the estimate of 11,000,000,000 bushels in futures, which is 80 per cent off, as now admitted in the record itself by Mr. Gates, who has just retired from the presidency of the Chicago Board of Trade. That error is proved by figures which were introduced from the Internal Revenue Department and printed by the Federal Trade Commission.

Second. Mr. Gates has referred to the table which attempts to show that the presence of future trading has tended to stabilize the market. This table is described and reproduced in evidence before this committee. It is referred to on page 532 of the record. In this table, if you will remember, he attempts to trace the history of the prices for 100 years, or for the period when future trading was not practiced and when it was. The table is based upon the remarkable assumption that one day of the year will be typical of the activities of the exchange for each year during 100 years. I do not know what would happen if he took the 1st day of February, the 1st day of March, or the 1st day of June, but he has taken the 1st day of January. A glance through the book discloses this interesting situation: For the three 20-year periods prior to the time of future trading or prior to the time that future trading was commenced, Mr. Boyle shows a variation of from $1.25 to $1.50, while since 1874, when future trading has been in effect, the variation has been from 60 to 68 and a fraction.

You will notice that the variation is apparently less since future trading has been established than it was prior thereto. Now, instead of selecting January 1, if you will glance down a little further, you will find that the variation from 1874 to 1893 ranged from 54¼ cents to $2, or a variation of $1.45¾, that being greater than in two of the 20-year periods previously set out. Again, taking the period from 1894 to 1913, inclusive, we find the variations to be from 50⅛ cents to $1.85, or a variation of $1.34⅞, which is again greater than in two of

the previous 20-year periods. Lastly, if you will not just stop at 1913, but bring the total on down to date, confining the statement to a time when futures were traded in, we find the variations during the period since 1913 to be from 77¾ cents to $3.45, or a variation of $2.67¼, which is more than $1 greater than any variation in the first three periods of 20 years each, demonstrating what you can prove by figures if you do not take the first day of the year and will go on down the column a little way.

Mr. PURNELL. There was a variation prior to 1874, as shown by the table——

Mr. THORNE (interposing). From $1.25 to $1.50.

Mr. MCLAUGHLIN of Michigan. Did he give any reason for taking the 1st of January of each year?

Mr. THORNE. I do not know. I have spoken of his statement as to futures being 80 per cent different from what we find, and also his statement as to the variation in price.

Mr. Boyle also made a statement in regard to the experience in Germany in abolishing future trading, and one or two members of this committee have spoken to me about it, asking us to look it up and see what we could find. Mr. Gates refers to that.

Mr. Gates, on pages 544 and 545 of the record, states:

Now, what are we going to do about this? Well, let us abolish the board of trade. I am not one of those who say that we can not get along without it. The grain trade will land on its feet. They are the best lot of men to adjust themselves to a new situation that you come in contact with, because they are meeting changing conditions every day. Let us get rid of the board of trade; let us have conditions similar to those that they have in other countries.

We would be foolish if we did that, because we have the experience of Germany in that matter, and you have in your Government documents sufficient evidence of that. I shall not read this; I shall simply refer you to the documents: United States Consular Reports, volume 52, No. 194, November 9, 1898, which document, by the way, is referred to and quoted in Mr. Boyle's book.

That describes the German law against speculation. United States Consular Reports volume 62, No. 235, of April, 1900, in regard to the working of the German law on exchange speculation.

That also is referred to, cited, and quoted in Mr. Boyle's book.

United States Consular Reports, volume 64, No. 243, of December, 1900, in regard to the working of the German law against speculation in grain.

That also is referred to and cited in Mr. Boyle's book.

This statement is made by Consul General Frank H. Mason:

"On the whole the Government is thoroughly convinced of the unjustified injury which legitimate commerce has suffered through the prohibition of dealing in grain futures. It knows quite as well as the agrarians that this prohibition has secured for cereals grown in the interior of Germany no better market and no higher prices."

That also is quoted in Mr. Boyle's book.

And he says that in view of the present unrest it was thought not wise to do it, but to repeal it, and it was repealed in 1900 and rading was permitted.

Now, mark you, gentlemen, he says that the law was repealed in 1900 and future trading was permitted.

Now, let us see what Germany does in her present dire distress. Here is a Berlin cable to the Philadelphia Ledger, which is published in the market bulletin of December 21:

The council of the Empire have approved a bill for the legalization of dealing in futures on the foreign exchange market by which it is hoped to check the

wide fluctuations in German exchange and permit German manufacturers and merchants to deal in the world market with some assurance as to what they will receive for their wares. The risk will be transferred to professionals dealing on the exchange market.

That last is a cable in a newspaper which does not seem to be in Mr. Boyle's book. There, in substance, we have the statement that Germany has tried this experiment you gentlemen are contemplating and that in a short time it was abandoned, and the law was repealed in 1900.

Mr. McLAUGHLIN of Michigan. How long was it in force?

Mr. THORNE. According to that statement, four years. Also, another gentleman has relied on Mr. Boyle's book, Mr. Vandusen, of Vandusen & Harrington:

Mr. McLAUGHLIN of Michigan. You say there was a law passed in Germany at one time forbidding this future trading?

Mr. VANDUSEN. Yes, sir; that is my understanding.

Mr. McLAUGHLIN of Michigan. And the result was that there was found to be more fluctuation in prices than when future trading was permitted?

Mr. VANDUSEN. Yes, sir.

Mr. McLAUGHLIN of Michigan. How long was that law in force?

Mr. VANDUSEN. Five years, I understand, or about that time. That is my understanding.

Mr. McLAUGHLIN of Michingan. And the law was repealed and future trading was permitted?

Mr. VANDUSEN. Yes, sir.

Mr. Boyle's book makes the same statement, as follows:

On April 2, 1900, future trading in grains was reopened. According to the report of the "eldest of the merchants" at this time—

I think possibly that that is a typographical error—

the only persons benefiting by the bourse law of 1896 were the interior dealers who worked on wider margins—paid the farmer less and sold the grain for more. The Bremen Cotton Exchange whose future trading in cotton was stopped by this same bourse act, was later reopened to future trading. Thus, did Germany undergo a change in policy toward future trading.

I have asked the legislative reference department of the Congressional Library to assist in getting facts in regard to this matter, and they have furnished us information. Through Mr. Tator's assistance in gathering the data I will now present two abstracts from the sessional papers, Great Britain, House of Commons, for the year 1903, No. 68, volume 33, page 24:

Inclosure in No. 10.

The prohibition of gambling in "options" and "futures" of agricultural produce and its effects.

The exchange law of 22d June, 1896, prohibiting gambling in options and futures of agricultural produce in Germany remains still in force. Opinions differ widely—

Now, gentlemen, remember that this was written in 1902, and it was still in force then—

Opinions differ widely as to the effects of the prohibition. Produce dealers, chambers of commerce, and other organizations of interest solely or chiefly commercial denounce the prohibition as the direct cause of the increased dependence of the German produce markets on foreign, especially American, produce exchanges in the matter of prices, of the considerable fluctuations of corn prices in German markets, and of the comparatively low prices for German produce.

I think it quite important that you gentlemen familiarize yourselves with just what follows there, as it may be suggestive:

They maintain that these effects of the prohibition do not, however, affect exclusively, or even principally, the produce dealer, but that they constitute a danger to German agriculture itself. They try to persuade their agrarian opponents that the reestablishment of the trade in options and futures would benefit the producer quite as much as the dealer. The agrarians on their part deny that agricultural interests have suffered from the prohibition, while they express their satisfaction at the loss of business and influence inflicted through the prohibition upon the German produce exchanges, more especially the Berlin Produce Exchange, which, in times previous to the exchange law, owed its great power to the very large business in options and futures. The advocates of the landed interest expressly devised and carried the prohibition as a means of breaking the powerful influence the produce exchange was able to exercise upon the price of agricultural produce to the detriment, they maintain, of the producer. That the prohibition has proven a disadvantage to the producer himself, has been repeatedly and strongly denied by agrarian members of the Imperial Diet.

They have, on the contrary, declared themselves completely satisfied with the effect of the prohibition. They maintain that since gambling in options and futures has been prohibited corn prices in Germany were remarkably free from the fluctuations experienced in foreign markets gambling in options and futures, that prices in Germany were much steadier than in such markets, that prices for German corn were by no means lower than in other countries or for foreign produce, and that producers did not experience any difficulty in disposing of their corn. Statistics are freely used on both sides to support these widely divergent views, and it would be hard to say where truth lies.

Here is a reference to the Elders of the Berlin Merchants:

The Elders of the Berlin Merchants report that after the Berlin Produce Exchange was dissolved they received frequent inquiries from army and navy commissariats, railway directors, town councils, etc., for reliable quotations of agricultural produce. That the want of official exchange quotations has also proved injurious to producers has not been admitted by the agrarians. They assert that the reports from German produce markets published by the Official Gazette and the quotations of the Prussian chambers of agriculture fulfilled the same requirements as the exchange market reports. This again is denied by their opponents.

Now, bringing it down to the last volume which we could secure in which reference is made to it, as late as 1913, volume 68 of the same series, page 18, states—this was written in 1912:

The provisions of the Bourse law concerning time bargains do not apply to time bargains in corn and corn-milling produce, which are prohibited, as they were by the law of 1896. Prohibited are also bargains for "differences," even if, on the face of it, they comply with the form of corn-selling contracts as fixed by the Imperial Federal Council. A refund of payments made in connection with any such illegal transaction can be claimed unless the payee has already satisfied his claim therefrom. Payments made in connection with such illegal time bargains can be reclaimed within two years after settlement, and within a longer period if a demand in writing for such repayment has been made before the expiration of the two years. (Grain and grain products are referred to by the expression "corn and corn-milling produce.")

Suffice it to say, gentlemen, that this shows that the law of 1912 is still on the statute books, and I would suggest that the wording of the contracts might very properly be investigated by some representative of the Department of Commerce.

Mr. McLAUGHLIN of Michigan. Mr. Thorne, there was an agreement made yesterday morning that after half an hour of your testimony other gentlemen appearing in relation to a forestry bill should be heard. It is now half past 11. Are you going to be in town later?

Mr. THORNE. May I ask this question: May I file a brief summary of my statement and close on that without taking further time?

Mr. HUTCHINSON. Some of us want to ask a lot of questions, and I do not think that is fair. There are some statements that have been made here that I would like to hear explained in some way.

Mr. MCLAUGHLIN of Michigan. Are you going to remain in the city?

Mr. THORNE. I would say, gentlemen, that I have a very important engagement in Chicago to-morrow, but I can return, if it is the wish of the committee. Would Saturday morning be agreeable?

Mr. WILSON. Why not make it Monday? You will be here next Monday, will you not?

Mr. THORNE. I have promised to be in a conference at Chicago on Monday in regard to the rates on crushed limestone and rock with delegations from various States. I made the promise over a month ahead. I am very sure I could be here Tuesday, leaving Chicago Monday.

Mr. VOIGT. Can you be here Saturday?

Mr. THORNE. Yes, sir.

Mr. VOIGT. Then, I see no reason why Mr. Thorne can not be heard Saturday.

Mr. WILSON. Mr. Hutchinson has an engagement, and has to be away on Saturday.

Mr. THORNE. Let me ask whether it would be possible for you to examine me now.

Mr. MCLAUGHLIN of Michigan. The arrangement made yesterday was that after half an hour these other gentlemen, many of whom come from outside of the city, would be heard.

Mr. KELLOGG. May I say a word, representing the gentlemen here yesterday who were to go on this morning? We have just been talking with Mr. Haugen, and if it would be possible for you to give us some time this afternoon to complete our hearing we would very much prefer to do that and let Mr. Thorne have the rest of this morning.

Mr. MCLAUGHLIN of Michigan. It does not seem to be convenient for some of the members to be in the committee room while the House is in session.

Mr. KELLOGG. We realize that fully, and if some one can be here to conduct the session we will be satisfied. We can not stay over another day, but we would much prefer to have Mr. Thorne complete his statement now if we could have some member conduct the hearing this afternoon.

Mr. MCLAUGHLIN of Michigan. That method of conducting a hearing is not very satisfactory.

Mr. THORNE. I would like to say, gentlemen, that in a brief summary I have made five suggestions which I would like to have the privileges of stating to you, if you would care to have them.

Mr. MCLAUGHLIN of Michigan. That will lead to further discussion and questions, and I feel, if you can conveniently come back, Mr. Thorne, you should do so.

Mr. THORNE. As I previously said, I would be pleased to do so if the committee requests it.

Mr. MCLAUGHLIN of Michigan. And your most convenient date would be next Tuesday?

Mr. THORNE. No; Saturday morning.

Mr. McLAUGHLIN of Michigan. But some of the members of the committee can not be present at that time, and in view of that fact, you named Tuesday; would that be satisfactory?

Mr. THORNE. Gentlemen, if I have my conference in Chicago Monday, there is a train leaving there at 12.40 that gets in here, I believe, about 9.30. I will come on that train if it is your request.

Mr. McLAUGHLIN of Michigan. Will that be agreeable to the committee? There seems to be no objection, and we will make that request of you, Mr. Thorne, if you can comply with it conveniently.

Mr. THORNE. Mr. Chairman, may I state the five suggestions that I have. They are only about 10 lines.

Mr. McLAUGHLIN of Michigan. If there are only 10 lines, all right.

Mr. THORNE. We suggest the following remedial measures:

1. Investigation and supervision of the activities of the grain exchanges, which should be just as intelligent and effective as is the present regulation and control of our national banks.

2. Open the exchanges to cooperative organizations of farmers. Cooperative organizations are to-day barred from practically all the grain exchanges in the United States.

3. A more efficient world crop-reporting system that will get the real facts, and disseminate the same promptly to producers as well as to the market places.

4. The immediate levying of a heavy tax upon dealing in "privileges," known as "puts" and "calls."

5. The ultimate elimination of short selling on the "futures" market.

I thank you.

Mr. TINCHER. Mr. Chairman, as I understand, there is some talk of some one in the department here whom it is desired to have testify, and I would suggest that he be requested to be here at the same time Mr. Thorne comes back, so that they can be both heard at the same time, and in that way save the time of the committee.

Mr. McLAUGHLIN of Michigan. Is there any objection to that? There does not seem to be any.

(Thereupon, the committee proceeded to the consideration of other business.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Wednesday, February 2, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. Mr. Thorne, we will be pleased to hear from you further this morning.

STATEMENT OF MR. CLIFFORD THORNE, CHICAGO, ILL., GENERAL COUNSEL, AMERICAN FARM BUREAU FEDERATION AND FOR THE FARMERS NATIONAL GRAIN DEALERS ASSOCIATION—Resumed.

Mr. THORNE. I have nothing further except that at the close I asked for the privilege of filing a summary. I have several copies of that here now, and I will simply file that with you.

The CHAIRMAN. Without objection, it will be incorporated.

(The summary referred to by Mr. Thorne is printed, as follows:)

SUMMARY OF STATEMENT.

Mr. THORNE. The Chicago Board of Trade is the greatest market for actual grain in the world. The farmers in the United States do not want to see this institution eliminated. However, there has grown up alongside this grain market—in fact, in another part of the same room where real grain is bought and sold—a speculative market for dealing in what are commonly called "futures." These transactions are carried on in the "pits." There are two classes of future trading, first, by parties who have an equivalent amount of actual grain which they intend to deliver, and, second, those who do not have any grain, don't want to have, and never expect to have, people who are merely betting on the rise and fall of market prices. We do not object to the legitimate marketing of actual grain, and we do not object to the sale of futures by parties having an equivalent amount of actual grain to deliver.

That there is gambling on the Chicago Board of Trade we have offered the following for your consideration:

1. Decisions by State courts, Federal courts, and the Supreme Court of the United States.
2. Copious extracts from an authoritative history of the Chicago Board of Trade by one of its own members, Charles H. Taylor, a former member of the board of directors of that institution.
3. A statement by Julius H. Barnes.
4. A statement by John Hill, jr., a member of the exchange for over 40 years, and at one time a member of the board of directors.

5. Authoritative statistical data demonstrating the enormous volume of transactions on the futures market, compared to actual deliveries of grain. This evidence can be summarized as follows:

(*a*) The number of bushels of wheat bought and sold on the wheat pit of the Chicago Board of Trade averages per year three times as much as the total production of wheat in the entire world.

(*b*) There are fifty-one times as many bushels of grain sold on the exchange as there is grain shipped into Chicago; and only a portion of this grain actually received at Chicago is available for delivery on the futures market, according to the rules of the board of trade. A single house on the Chicago Board of Trade will sell in three days as much grain as is capable of being delivered on the futures market during the entire year.

(*c*) The actual grain available for delivery at Chicago on "future" contracts averages less than twenty-eight-hundredths of 1 per cent of the number of bushels bought and sold on the board of trade. In other words, over 99 per cent of the sales on the "futures" market are not followed by the actual delivery of the grain.

This statistical data has been carefully compiled by experts, and we challenge any person to show any substantial error in any portion of the same.

They sell approximately 18,500,000,000 bushels of grain on the "futures" market at Chicago annually, at a value ranging from fifteen to twenty billions of dollars.

We have cited reputable authorities showing that the total volume of transactions on the Louisiana Lottery aggregated not more than 60 millions of dollars annually, compared to the modest sum of more than 15 thousand millions of dollars involved in the speculations annually on the Chicago Board of Trade.

We have reported to you the result of a conference with a former employee of the bank at Monte Carlo, and we have cited authoritative statements as to the operations at Monte Carlo, which show that the total net receipts of that institution do not overage more than one-third the commissions alone derived from the sales on the "futures" market of the Chicago Board of Trade. The gambling on the Chicago Board of Trade makes the Louisiana Lottery and Monte Carlo look very small and insignificant.

If a purchase and sale of grain consummated by parties who do not have any grain to deliver on the contract, and who do not want to receive any real grain, who do not expect to have any grain delivered or received, and who, in more than ninety-nine cases out of a hundred, settle their contracts by the payment of differences, is gambling, then we have demonstrated the fact that the Chicago Board of Trade is the greatest gambling institution ever seen upon the face of the earth.

This stupendous speculative market constitutes our price-determining machinery on grain. We object to certain phases of its present operations for the following reasons:

Because the most important function of the entire institution is under the control and domination of speculators. The dealer in actual grain is completely overshadowed.

Because the existence of an enormous volume of speculation supports a large corps of professionals, who make their livelihood by the up-

and downs of the market instead of by legitimate investment; their very presence on the exchange, their constant organized activities, instead of stabilizing the market, tend to unsettle the market, causing violent price fluctuations from which they are able to reap their profits. That is a natural result, because it constitutes the major portion of their livelihood.

Because the credit resources involved in these vast speculative transactions, aggregating literally billions of dollars annually, should be employed in productive channels. The margins alone constitute a very large sum of money.

Because the cost in commissions and the other expenses incidental to the enormous trading in futures constitute an excessive premium on the so-called insurance, which produces a direct economic loss.

Because it is unwise to maintain a huge gambling institution in our midst. Other industries have not found this to be necessary.

We suggest the following remedial measures:

1. Investigation and supervision of the activities of the grain exchanges, which should be just as intelligent and effective as is the present regulation and control of our national banks.

2. Open the exchanges to cooperative organizations of farmers. Cooperative organizations to-day are barred from practically all the grain exchanges in the United States.

3. A more efficient world crop-reporting system that will get the real facts, and disseminate the same promptly to producers as well as to the market places.

4. The immediate levying of a heavy tax upon dealing in "privileges," known as "puts" and "calls."

5. The ultimate elimination of short-selling on the "futures" market.

Regardless of the technical differences in effecting settlements at the different grain exchanges, transactions between the houses and between customers are closed by the payment and receipt of profits and losses or net balances, and not by the delivery and receipt of commodities purchased, with the accompanying payment and receipt of the purchase price. In essence, settlements are effected by the "payment of differences"; this is true of 99 per cent of the trading in futures at the Chicago market.

The Federal Trade Commission has described the accounts kept by a commission house with a grain-futures customer in the following language:

> The regular ledger account of a grain-futures customer is different from the similar account of a customer in any other business in respect to the fact that there are no debits for the gross value of commodities dealt in, but only net entries for profits and losses on trades, unless a warehouse receipt is actually taken in on delivery and paid for. The assumption is that future transaction will be set against future transaction, and that the customer is inerested only in the net.

The accounts of settlements between commission houses are described as follows:

> The settlement book shows how the trades between houses are closed out. It is the record of differences, debit or credit, due to or from commission houses, to be paid through the clearing house.

If these transactions are not settled by the payment of differences, we do not know what contracts can be so settled. There has been

considerable conflict in the decisions of the courts. However, as previously stated, you are the makers of the law.

It has been held by the Supreme Court that you can not describe as income that which is not income. On the other hand, the same court has sustained your declaration as to what constitutes intoxicating liquor. There can be little doubt but what the proper legislative body can prohibit all dealings in futures, within its jurisdiction, if it determines to do so. (Booth *v.* Illinois, 184 U. S., 425; Pearce *v.* Rice, 142 U. S., 28.) And the decisions of the Federal courts on the cotton-futures act would indicate that Congress has the power to tax futures in the manner proposed in several of the bills under consideration by this committee at the present moment. (Hutton *v.* Terrell, 255 Fed., 860) However, the Supreme Court has not yet decided the constitutionality of that measure.

There was a time in old English law when wagers were not unlawful, but in this country our legislatures and courts have branded gambling contracts as against public policy and void. In many jurisdictions fines and imprisonment are provided by statute as punishment for those who maintain gambling institutions.

The insidious influence of the gambling instinct has been one of the greatest evils with which we have had to contend. And yet, whenever the community has been thoroughly awakened to the existence of this practice in any of our various industrial activities, the States and the Nation have ultimately acted effectively in getting rid of the evil. The fact that church raffles, betting on elections, baseball games, etc., still continue, is no more an argument for permitting the practice of gambling to continue, without any effort at checking it by law or otherwise, than the continued existence of thieves and murderers constitutes a justification for the repeal of the laws against stealing and murdering. Society has made very substantial progress in getting rid of such practices since the days of savagery, and we propose to continue along similar lines in the future. What is fundamentally wrong can not be right.

I understood there were some gentlemen who desired to ask some questions.

Mr. TINCHER. Mr. Wilson desired to ask Mr. Thorne some questions and Mr. Hutchinson also.

Mr. MCLAUGHLIN. Mr. Thorne, your testimony has been very interesting, and the committee is under great obligations to you for coming and giving it. It discloses, as does the testimony of other witnesses, that evils exist on the grain exchanges which almost everybody, and certainly this committee, would like to eliminate, if possible; but I am satisfied that a great many wish to see the grain exchanges continued or continue to function in some respects. For the benefit of this committee, which must legislate and do it directly and specifically, we would be pleased if you would point out to us some line that we might follow, finding out just what those evils are that can be eliminated and how that result can be reached.

Mr. THORNE. In the closing summary of my statement, which was not read to the committee, I attempted to summarize the objectionable features and proposed remedial measures. Without repeating too much, I think we have demonstrated, first, that there is gambling on the exchanges, which is demonstrated, first, by the decisions of

courts, State, Federal, and National; second, by the statement made by Mr. Barnes himself before this committee; third, by the statement of Mr. John Hill, jr., a member of the exchange for over 40 years, and formerly a member of the board of directors; further, by a statement from an authoritative history of the exchange; and, lastly, we have demonstrated that fact by a series of statistical tables demonstrating conclusively the relative volume of transactions which are followed by deliveries of any grain compared with the transactions that are not followed by any deliveries. Consequently, if there is over 90 per cent of the transactions not followed by deliveries, we believe it fair to assume that those people do not expect to deliver. In support of that, we have quoted extracts from the testimony of Mr. Barnes, extracts from the Federal Trade Commission report; and basing our conclusion upon the fundamental rule that a person expects or intends to do what a reasonable man may expect would follow a given action or a course of action, I think nobody can sanely claim that these men expect to make these deliveries, and if they are not expecting to, they do not intend to. Those were the principal points I thought were established.

Mr. McLAUGHLIN of Michigan. I think you are entirely right that it has been established that there is an immense amount of gambling, pure and simple, on the exchanges.

Mr. THORNE. Now, to meet the situation, we have suggested several possible remedial measures. First, as to "puts and calls," which are admittedly gambling, which have been recommended to be abolished by the board of trade repeatedly by resolutions of the board, and which at one time were prohibited by statute and later amended; that could be abolished in the manner that several of the bills here contemplate—by taxation. I will refer specifically to the Tincher-Capper bill.

Mr. McLAUGHLIN of Michigan. Could that be reached by name in the law by calling it "puts and calls"?

Mr. THORNE. They were called options or privileges and were so named in statutes, just like you have had bucket shops named in statutes. The name could be followed by a specific definition. The tax, in our judgment, could be leveled on that immediately—a heavy, prohibitive tax. They are not necessary at all for hedging purposes, in our judgment, and there is no reasonable objection from any of our associates that we have been able to find to the immediate elimination of that phase of the activities of the board of trade.

Now, second, as to the ultimate elimination of future trading, we realize the fact as demonstrated by the letters which we read to the committee, that there is a large sentiment in favor of a not too sudden change until some other readjustment can be effected by all parties concerned.

Mr. McLAUGHLIN of Michigan. You do not means sudden change with respect to "puts and calls"?

Mr. THORNE. No; I do not think that would constitute a disturbing factor.

Mr. McLAUGHLIN of Michigan. You would advise legislation respecting those at once.

Mr. THORNE. Yes, sir. Now, if you immediately eliminate all future trading, it would probably prohibit or take away some of the present customary methods of operation by elevators, millers, and

others. If we start with the premise that there is gambling that ought to be eradicated, the next question is, should it be eradicated at once? Slavery was wrong. Yet there were parties who earnestly advocated in the early days, dealing with that problem before the war and during the war, that there should be a purchase of the slaves or that a given time should elapse. The operation of saloons has been stated as wrong, and yet you set a future date at which traffic in liquor was to be eliminated. Lack of safety appliances on our railroads was wrong, and yet you fixed a subsequent date when that was to be corrected. Each one of those necessitated economic expense and loss from somebody. Somebody had to readjust their methods, but nevertheless, you said, "This thing has got to stop: it is wrong."

Mr. McLAUGHLIN of Michigan. As to the evils that are admitted, and there are many of them, would you advise that those be eliminated gradually?

Mr. THORNE. Which ones?

Mr. McLAUGHLIN of Michigan. Those that are admitted to be evils, standing by themselves; can we separate them? I am one of those who would feel that if we can find an evil and describe it, I would stop it at once and not gradually, as you suggest.

Mr. THORNE. Is that so? You did not adopt that course as to safety appliances on the railroads.

Mr. McLAUGHLIN of Michigan. That involved a lot of expense and the changing over of equipment and all of that, and the resources of the country that would have to incur that expense were limited. You will pardon me, but it seems to me the illustration you give is hardly pat. Here it is admitted there are certain evils that ought not to exist at all, and if it is necessary for a lapse of time so we can find a way to eliminate the evils that are so connected with necessary methods of doing business, so as not to disturb the necessary ways of doing business, that is another thing; but if we can find these evils, and everybody admits they exist, and can separate them at once, why give those evils further time to adjust themselves or give further time to those who are engaged in carrying on those evil practices; why should they be given time to adjust themselves?

Mr. THORNE. I will say, again, that in the elimination of other evils that policy has been resorted to when it has been found that there might be an extraordinary disturbance of conditions. You have given business an opportunity to readjust itself. Nobody can possibly claim that it was not evil for the railroads to fail to protect against accident and loss of life. It was wrong for them not to be properly equipped, yet you postponed the effective date for the safety appliance act. I think if you immediately put on this tax so as to eliminate all opportunity to hedge it would not be so wise as to make an effective date in the future, thereby permitting business to have an opportunity to readjust its methods.

In connection with that there are several methods that have been proposed—one is to tax all transactions in futures in excess of three times the actual grain sold during the course of the fiscal year. It seems to me that tax is an effective method of dealing with it. I think that that tax will be held constitutional, and judging from my conference with men on the exchange I think it will get results were it modified so as to eliminate the multiple of three. If you

leave the multiple of three in there, as I previously stated, it will enable persons to take the warehouse receipts, transfer them at the same price back and forth, 8 or 10 or 20 times, or at slight variations, which could readily be offset in the transactions of a day or two days, and instead of eliminating the future trading down to three times the actual grain, you would find that future trading could be indulged in many, many times the actual grain dealt in, because every time I handled that warehouse receipt I would be entitled to three times the amount of grain on the futures market. I could pass that around among the gentlemen at this table. If I passed around a warehouse receipt for 100,000 bushels, every one of us would be entitled to deal in three times that amount on the futures market, and we could do it all in a few moments time. To meet that it has been suggested that if you eliminate the multiple of three, or if you can devise some other way—and I can not—to prevent that manipulation I have just described, that might be a substantial reduction in the possibilities of the future trading. That manipulation, I have described, is practical and feasible and capable of being put through, according to the best advice I can get from members of the exchange.

If the bill goes through in that form, I fear you will not have accomplished as much as you intended to accomplish. If you can limit the transactions to the amount of actual grain handled during a fiscal year, without any multiple; in other words, I can not sell anything except what I have an equal quantity of, you will in effect destroy short selling. Short selling does tend to "bear" the market. That could be eliminated. However, if you prohibit all but one sale in quantity equivalent to that actually dealt in, I fear you will have difficulty in finding a buyer. If I offer the grain for sale, I have got to have a buyer. If the buyer knows he must pay a tax, he will probably not be enthusiastic about buying.

I think that one method that could be devised by the committee would be to use the bill as proposed by Messrs. Capper and Tincher, or a bill along the same lines, if you can devise a method that will prohibit that manipulation which I have described. Second, if instead of that, you eliminate the multiple of three, then I suggest that the effective date be postponed for two years or a substantial period of time to let people readjust their methods of operation. Those are the only two suggestions I have in regard to that. I have a suggestion in regard to regulation.

Mr. McLAUGHLIN of Michigan. There is another method suggested which is included in a bill introduced by Mr. Dickinson of Iowa, who was here a moment ago and who is not a member of the committee, and that is by limiting the length of time that these transactions can cover to 60 days or something like that. What would you think of that?

Mr. THORNE. That is only one part of his bill, of course.

Mr. McLAUGHLIN of Michigan. Yes.

Mr. THORNE. I would hardly be in favor of that, gentlemen. A miller or other party might want to have it six months off or four months off. I do not see the justice in limiting it to 60 days.

In regard to the regulation feature that I just spoke of, it has been said that we are having too much interference with business; that Congress ought to stop trying to interfere with business; and that the public is impatient with that policy. I would like to ask

such a gentleman if he thought it was advisable to interfere with the Louisiana Lottery. Does he think it is inadvisable to interfere with poolrooms; does he think it inadvisable to interfere with the saloon traffic or with the opium traffic. Was it inadvisable to interfere with slavery. I think that if this thing is fundamentally wrong, if gambling is fundamentally wrong in Louisiana, it is fundamentally wrong on the Chicago Board of Trade, and it is justifiable to interfere with it.

Mr. McLAUGHLIN of Michigan. I think everyone will agree with you on that.

Mr. THORNE. You have provided for regulation of national banks. Here is a great institution which admittedly is the price-determining machinery for one of our greatest crops in America. If it is justifiable to interfere with or regulate our national banks, it would seem to me justifiable to regulate the operations of this exchange. It is very, very close to the needs of a vast agricultural body of people and if we have been able to show conclusively from their own records and from other sources that their operations have been fraught with many objectionable features, we are entitled to this relief from this Congress. It ought not to be permitted to go ahead, and in that supervision we do not want a mere playing with the proposition as some have suggested before this committee, a sort of voluntary control. We do not want something that will be a palliative to make people think that they are getting something without getting anything. We want a real power there to straighten this thing out. I think that is all.

Mr. McLAUGHLIN of Michigan. Interwoven with the whole proposition, and as a part of it, is the hedging which even you think is proper and may be necessary. I think no one would object to the elimination at once, or very soon, of these objectionable things, but how to do it and leave in it the part that even you seem to approve—or possibly I am mistaken. Do you think the grain business of the country—that is, the entire proposition—can be carried on without any grain exchanges at all on which hedging is permitted.

Mr. THORNE. I will answer your question in two ways. First, I do not propose the elimination of the grain exchanges at all. I think as a meeting place for buyers and sellers of grain it is performing a great service and should be maintained.

Second, as to the dealing in futures and the hedging privilege, if you eliminate short selling, a man can deal in futures. There are two classes of futures, one is a future by a party who does not have the grain and does not expect to have it and does not want to have it, selling to a party who does not want the grain, does not expect to get it, and does not intend to get it, and in fact, does not get it. That is one class.

Mr. YOUNG. Should that be eliminated?

Mr. THORNE. Yes, sir.

Mr. PURNELL. I did not hear that question.

Mr. THORNE. He asked should that be eliminated and I answered. yes, sir; but my suggestion is that the effective date for the elimination of that should be put at a future date.

Mr. PURNELL. May I interrupt you there because that is right in line with a question I had jotted down. What should be eliminated? The man who takes the other end of the hedge?

Mr. THORNE. You should ultimately eliminate selling of grain by people who do not have any grain to sell. I have said that there are two classes of futures. There is another class of a future contract where you do have the grain and you do expect and intend to sell grain. You may not have it at this instant in your possession. It may not be raised yet. A man may sell me a suit of clothes and he may not have it yet. It is a future contract. He fully intends and expects to deliver me a suit of clothes. I think a man ought to be able to sell grain where he does expect and intend to deliver the grain, but where he does not expect and intend to deliver the grain, it ought to be eliminated.

To draw a hard and fast line is very, very difficult, because you can not open a man's mind and read what his real intention is. After you have made a contract to deliver a suit of clothes, you may go out of the tailoring business and sell your business to another party, or something else may happen that will prevent delivery of that suit of clothes. Now, an approximate method of reaching that situation and solving the problem is the tax method. Over a given fiscal year, if you did not deliver the equivalent amount of grain, the levy of a tax on that transaction tends to meet the situation.

Mr. MCLAUGHLIN of Michigan. You would have the tax determined at the end of the year and have the parties to it disclose what their transactions were and the nature of them?

Mr. THORNE. I think that is the most effective, practical, feasible method of reaching it. If you have not dealt in an equivalent amount of grain during the course of the fiscal year, the tax is levied.

Mr. TINCHER. Mr. Thorne, I am not going to ask you any questions because I think you have covered this matter very completely, and at least to my satisfaction, and as one of the proponents of this legislation I want to think you for your attendance upon the committee and for the careful study you have made of this subject, and for the valuable information which you have furnished the committee on the subject.

Mr. THORNE. Thank you, heartily.

Mr. PURNELL. Mr. Thorne, I am not sure I am just clear on this question of the hedge. You want to maintain the hedge and at the same time eliminate the transaction that you term gambling or pure speculation, or rather the transaction set in motion by the man who has no grain, never expects to have any, and never expects to deliver any. Am I correct in my statement up to that point—that you want to maintain the hedge?

Mr. THORNE. I want to maintain the hedge in its present method of operation until business has a chance to readjust itself. After that time I want to maintain the hedge if it can be effected without the necessity for a large, speculative, gambling market. If it can not be maintained effectively, then the hedge ought to go ultimately. There is no excuse for this industry to insist that it has a right to a gambling den over on La Salle Street in Chicago in order for it to function than there is for every other great industry in America to make the same demand. I think that other industries can get along without it and we ought to be able to find some way of doing it, only we want a reasonable time within which to prepare ourselves.

Mr. PURNELL. I am thinking about the practical application of the proposition. In the fall of the year, for instance, when the

small farmer or small producer must throw his crop onto the market to raise money to pay off notes and to pay help and so forth, he must have a buyer for his grain. Now, here is what happens in my section of the country: The small producer goes to the elevator man in his locality, who is not a rich man by any means, and not able to carry a heavy load financially, and sells him, say, 5,000 bushels of corn. The elevator man immediately buys 5,000 bushels of corn on the exchange as a hedge to protect himself against that transaction. Up to that point, in your judgment, that is a perfectly legitimate transaction, is it not? One has the actual, physical property, the other has bought it for future delivery, and expects to have it, and in turn has sold it.

Mr. THORNE. Yes, sir.

Mr. PURNELL. That transaction is perfectly normal and legitimate, in your judgment?

Mr. THORNE. Yes. Did you contemplate the farmer selling it before it was raised?

Mr. PURNELL. No; I think I was thinking about his selling at a time when he had it and had to dispose of it.

Mr. THORNE. And could not get it to the elevator because of the roads?

Mr. PURNELL. Well, very frequently that happens and very frequently the elevator man's warehouse is full, or he can not get cars, or something of that sort, and the man on the farm needs the money.

Mr. THORNE. The reason I was asking those questions was because it may bear on the subject of whether you were trying there to get a credit. I think that is one method for the farmer to get credit, but, of course, there are other methods for the farmer to get credit; lots of them.

Mr. PURNELL. May I just carry that a little further, because I want to find out, so far as I am individually concerned, what ought to happen. It has been contended before this committee by almost innumerable witnesses that under no circumstances must we destroy this right to hedge, and in answer to specific questions on that point, the majority of them have stated, in maintaining the hedge we must not destroy the purely speculative or gambling transactions, because they tell us that if a man sells or buys a hedge there must be some man on the other end of it to take it, and now it does not make any difference whether he is a speculator or gambler or whether he has the grain or not, but if I follow your suggestion, my elevator man, who sells 5,000 bushels of corn in Chicago against the 5,000 which he bought of the farmer, must not sell that 5,000 bushels of corn to a man unless he be making a legitimate hedge himself. In other words, the man in Chicago who buys the 5,000 bushels of corn must, by some rule or regulation of law, have the physical property himself or have it in expectancy.

Mr. THORNE. What is the trouble with him? What is the matter? Why can not he sell? At the end of the fiscal year he would pay no tax on that transaction.

Mr. PURNELL. Perhaps I have not made myself clear, but what you would seek to do would be to compel my elevator man, before he can make his transaction in Chicago, to find some man up there

who is in a similar circumstance in which he finds himself in order to sell it. In other words, you bar him from selling it in Chicago to a gambler?

Mr. THORNE. I do not care what that man is in Chicago. Any man ought to be permitted to buy that grain, I do not care whether he is a murderer or a thief, if he is operating in Chicago for future delivery.

Mr. PURNELL. My elevator man does not expect to deliver it to him?

Mr. THORNE. I thought he did.

Mr. PURNELL. On the face of the transaction yes, but in reality he does not.

Mr. THORNE. Why should not he deliver, why can not he sell grain to be delivered?

Mr. PURNELL. Perhaps he can not find enough men in Chicago to take the grain; they will not take the gambling chance on the market?

Mr. THORNE. There is a constant market to deliver grain.

Mr. PURNELL. The thing I was trying to find out was whether or not you would make hedging legitimate?

Mr. THORNE. I was stating two methods. One is to prevent short selling; that is, selling grain for one who does not have the grain or an equivalent amount of that or who does not intend to have it during the course of the fiscal year, and the other is a tax on all grain sold in excess of what he actually sold during the fiscal year, multiplied by some definite fixed multiple, with a qualifying provision that will prevent the manipulation that I speak of. There are those two methods. One of them would permit a limited amount of selling. No one desires to deprive any man of the privilege of selling grain that will be delivered at a future time. Those kinds of future contracts are perfectly legitimate and necessarily so as in all other business. I say that ultimately it is not necessary to have the gambling any more than in other business. There is a certain amount of speculation in all business. You can not draw a hard and fast line, as I have repeatedly said. The best you can do is to approximate.

Mr. PURNELL. It seems to me that is the real difficulty, to find the line of demarcation between the legitimate field and one that is not legitimate.

Mr. THORNE. Absolutely, and in order to draw that line you can not draw it with the precision that would be desirable. As I previously stated, if you can tell me the hour and minute when a pig becomes a hog, I can tell you when the speculator becomes a gambler. When a man shoots another man it is pretty hard to tell what was the intention; we have conflicting circumstances, but we arrive at it definitely and decidedly whether he intended to kill or did not intend to kill. In this particular industry I have prescribed two methods of approximating which I think are fair and reasonable. The only idea of postponing the effective date is to allow us to readjust matters.

Mr. PURNELL. I want to add to what the other gentlemen have said my appreciation for your coming before the committee. I have secured a great deal of good from your statement, and I want to thank you on behalf of myself.

Mr. THORNE. I thank you.

The CHAIRMAN. Mr. McLaughlin, have you any questions to ask?

Mr. MCLAUGHLIN of Nebraska. No, Mr. Chairman, only to thank Mr. Thorne for the substantial and instructive statement he has made and for the clear and courteous manner in which he has answered all the questions which members of the committee have asked him.

The CHAIRMAN. Mr. Lee, have you any questions to ask?

Mr. LEE. No, Mr. Chairman.

The CHAIRMAN. Mr. Young, have you any questions to ask?

Mr. YOUNG. No, Mr. Chairman; I do not think of any questions.

The CHAIRMAN. Mr. Rubey, have you any questions to ask?

Mr. RUBEY. No, Mr. Chairman.

The CHAIRMAN. Mr. Riddick, have you any questions to ask?

Mr. RIDDICK. No, sir.

The CHAIRMAN. Mr. Voigt, have you any questions to ask?

Mr. VOIGT. Mr. Chairman, I want to ask a few questions, but I will nott take up much time.

The CHAIRMAN. Very well, Mr. Voigt, you may proceed.

Mr. VOIGT. You do not favor the elimination of hedging at this time?

Mr. THORNE. That is correct.

Mr. VOIGT. You favor some law which would declare it to be illegal two years from now?

Mr. THORNE. No, sir.

Mr. VOIGT. What time would you suggest?

Mr. THORNE. I have not suggested a law that would declare hedging illegal at any time. I have said this, that if there is no other way to eliminate gambling except by eliminating hedging, that that ought to be done at a date effective about two years hence, but I still think that legitimate hedging may be effected without involving necessary gambling. As to that method of hedging, the term "hedging" might have to be broadened. At the present time we use that term as meaning selling grain that you do not expect to deliver to a person that does not expect to receive it. Possibly the term is limited in that manner in your mind. Is it?

Mr. VOIGT. My understanding of hedging is this, that a man hedges who either has grain in his possession or has obligated himself to deliver or buy grain in the future at a specific price and in order to secure himself against a loss and on the other hand protect himself from a loss in handling the grain which he has or with reference to which he has assumed an obligation, that he either buys or sells a like amount of grain for future delivery and offsets one transaction against the other.

Mr. THORNE. In the second transaction, does the man intend or expect to deliver any grain?

Mr. VOIGT. The man who makes the hedge?

Mr. THORNE. You described two transactions in your statement, and I am asking as to the second transaction, when he makes the transaction does he intend or expect to deliver any grain?

Mr. VOIGT. No. My understanding of hedging is that the transaction that the man hedges on is an actual transaction for the purchase or sale of grain, but that the second transaction is a purely speculative transaction, undertaken for the purpose of insuring the

first transaction, and there is no delivery or receipt of grain contemplated on the hedging operation.

Mr. THORNE. Either contemplated, expected, or intended?

Mr. VOIGT. It is contemplated on paper, but, as a matter of fact, the parties do not intend to make a delivery or to accept the grain. In my judgment, a hedge is a gamble except that it has the redeeming feature that the man who hedges has some contract in grain or some actual grain which he protects by hedging or speculating or gambling.

Mr. THORNE. I would answer you in this way: Specifying the hedging operation, as you have specifically, as a gamble, it simply means that I have gone to another place and bet that the price will go down when I have, on the other hand, sold some actual grain in regard to that gamble. I am in favor of the elimination of that ultimately, most unqualifiedly, yes, but I want to say this, that it should be possible to make that insurance by some other method.

I might say that when I take out an insurance policy I make a bet that my barn will burn down or will not burn down, or that when I take out a life insurance policy that I will die or will not die. In that sense it is a distortion to my mind to call that a bet or a gamble, as some people usually describe it. I think it is possible for us to devise a method of insuring this actual grain by some other method than making a bet or gamble. Therefore, I say that we ought to devise some method of hedging that will not rest upon that foundation. There are various ways of making the insurance. I understand that Lloyd's will insure everything. I am not an insurance expert.

Mr. VOIGT. May I stop you right there?

Mr. THORNE. Certainly.

Mr. VOIGT. I do not want to take up any more time, but I feel compelled to take up a little time.

You have made a very clear statement before this committee as to the evils which exist, and I do not think it is necessary to take up any further time of the committee in pointing out the evils. What I should like to secure from you is a statement of a specific remedy to cure these evils. Your testimony to me is just a little bit hazy as to what you propose to do about hedging. I think you understand what hedging is, and I think the members of the committee understand what hedging is.

You say that you are not in favor of doing away with hedging. That is true?

Mr. THORNE. Yes, sir; except by the qualification which I previously stated.

Mr. VOIGT. Will you please state that again?

Mr. THORNE. Unless the only way of doing away with hedging involves gambling.

Mr. VOIGT. I think this committee is agreed that there can not be hedging without there being gambling involved?

Mr. THORNE. That is something that I can not agree to.

Mr. VOIGT. If a man hedges on a sale of grain he wants to insure a price of $1 a bushel, we will say, he has the grain and he telegraphs an order to a broker to sell that quantity of grain for future delivery on a hedging contract, on which he does not contemplate ever to

make delivery. He is gambling and the man that takes the other end of the contract on the board of trade is gambling, as I see it. How are you going to stop that gambling transaction and still have hedging? That is something that I can not quite grasp.

Mr. THORNE. That means just repetition. I have defined the method of hedging; and as you have defined it, to my mind, it must ultimately go, but I have insisted that there must be other methods of hedging. There is simply a difference of definition. The term "hedging" should be broadened to a larger meaning than you intend by the use of the term. You have specified hedging in one manner and I have said to you, defining it as you have, that I would say that ultimately that ought to go.

Mr. VOIGT. Taking my definition of "hedging," would you favor the passing of a law doing away with hedging at the present time?

Mr. THORNE. No, sir.

Mr. VOIGT. Then you would defer that to some future time?

Mr. THORNE. Yes, sir.

Mr. VOIGT. I do not understand from the evidence given before this committee that there is any other form of hedging than the form I have described. If you know of another form, I would be glad to have you state it.

Mr. THORNE. I am trying to wrestle with a problem, in answering that question, which the grain industry, with all its experts, ought to be able to devise. I think that taking out an insurance policy is a certain form of hedging in the broader acceptation of the term. You can take out an insurance policy and in one sense you might say it is a bet and in another sense it is not. You pay a reasonable cost to the person who is just in the insurance business and not in the gambling business. I think it would be possible for us to devise a sensible, sound way of caring for hedging without having to go to a gambling institution. I say that I am not prepared to state what method should be devised, but this Congress ought to state, as you have just described, that the gambling, which you admit specifically ought to be stopped—the country will not stand for that when it realizes what it is, as you have just stated it to be.

Mr. VOIGT. Let us see. As you say, there is a gambling element in insurance. The law on that subject is that insurance is a gamble unless the parties who take out the contract of insurance have an insurable interest in the property covered by the policy. That is, I can not take out a policy of insurance on your house unless I have some interest in it.

Mr. THORNE. It is not gambling when I have an insurance risk in it?

Mr. VOIGT. I say there is an element of risk in it and, of course, gambling necessitates a risk also. You do not want to do away with hedging, unless some other method of accomplishing the same thing can be devised.

Mr. THORNE. I have not said that. I will repeat my former answer. I have said to you that I am in favor of the ultimate elimination of hedging, as you have defined it, that it ought to be up to the grain industry to devise another way for insuring the crop, but that they must within a certain time do that. I might say further that I am not in favor of eliminating it to-day, but to give the industry a reasonable period of time within which to readjust itself.

Mr. VOIGT. You are in favor of devising some other method of permitting a man to insure himself against loss on the price or value of grain, if I understand you correctly?

Mr. THORNE. Yes, sir.

Mr. VOIGT. You think that might be accomplished by some form of insurance?

Mr. THORNE. Or other method.

Mr. VOIGT. Have you any?

Mr. THORNE. I do not think it is necessary for me to answer instantaneously what I am suggesting that you give the industry, with all its experts, two years to answer. I would say that you would be justified in saying the same thing to any other industry. If there is any industry in this country that is carrying on its operations to the extent of Monte Carlo or the Louisiana lottery, that you should say that that industry must stop, we will give you so long a time, but that particular method has got to be stopped—that is all I am suggesting here.

Mr. VOIGT. You do not make any recommendation, but you think it ought to be stopped?

Mr. THORNE. Yes, sir; I have suggested the tax for that purpose two years hence.

Mr. VOIGT. You have suggested a tax on all future sales?

Mr. THORNE. I did not say that.

Mr. VOIGT. That is, where the actual grain is not involved.

Mr. THORNE. I suggested a tax analogous to that provided in the Capper-Tincher law or as an alternative a tax in the same manner, except so guarded that the clause permitting three times the transaction can not be abused or manipulated, and also such a second modification of the Capper-Tincher method as the elimination of the multiple altogether, cut out that multiple of three or devise some way by which that multiple of three can not be abused or manipulated; and the third qualification of the law is, as previously stated, the postponement of the effective date.

Mr. VOIGT. Can you suggest to this committee any way that a bill could be framed which would not leave this multiple of three open to abuse?

Mr. THORNE. At present I can not. As stated previously in my statement this morning, that will have to be given a great deal of thought. I have conferred with other men. I can not suggest the method.

Mr. VOIGT. Do you think that the Tincher bill would effectively stop gambling in grain as it is now done?

Mr. THORNE. Without caring for the multiple of three?

Mr. VOIGT. As the bill now stands.

Mr. THORNE. I do not.

Mr. VOIGT. Your first suggestion is that supervision of the activities of the grain exchanges be provided for. It is your idea that there should be a national commission to supervise the grain exchanges?

Mr. THORNE. I would not advocate the creating of a new commission. I think it might be properly put under the jurisdiction of some department already in existence.

Mr. VOIGT. You would want to endow that agency with sufficient power to make binding regulations for the trade?

Mr. THORNE. Yes, sir.

Mr. VOIGT. Your idea is that ultimately all contracts for the sale or purchase of grain, where the parties do not intend and contemplate to actually deliver, shall be done away with?

Mr. THORNE. Yes, sir.

Mr. VOIGT. If we had that condition, then there would be no hedging?

Mr. THORNE. That means a repetition of the former statement. As you have defined it, no; as I have defined it, yes.

Mr. VOIGT. Suppose we should pass a law that no contract for the sale or purchase of grain should be made unless the actual grain is delivered, then hedging will be unnecessary, will it not?

Mr. THORNE. I would not go that far any more than I would prohibit a man from selling land unless he actually delivered the land. A man might change his mind. A man might otherwise dispose of the contract than by delivering the land. We can not destroy that line of activity; we can only approximate a method that will bring about justice, and the best approximation I have seen yet that has been suggested and that would be a valid action on the part of Congress is this taxation method of the sales in excess of actual deliveries, so that you might sell your proposition, but you would then be subject to a tax. You might change your mind and you would not be subject to a tax. Even then, if you secured constructive possession of the grain you could make delivery and not pay the tax. You would have to have the grain in your hands to have possession over it. At the present time you have a warehouse receipt which is constructive possession of the grain, you have actually the grain. and I think that you should not do away with that line of transaction.

Mr. VOIGT. Then, your suggestion would be that ultimately we would have a condition where there should be absolute delivery of the grain contracted for, but if for any reason it becomes impossible or impracticable to make delivery, that a tax shall be levied on the contract.

Mr. THORNE. I would not do that down to each contract. If on the total amount sold during the year there is not a delivery of an equivalent amount multiplied by three the tax should be levied, or. as another alternative, without any multiple of three, the tax should be levied. In other words, I have qualified your statement of it by saying instead of confining it to the individual transaction it should be transferred to the total volume during the course of a fiscal year.

Mr. VOIGT. That is what the Tincher bill attempts to do?

Mr. THORNE. Yes, sir.

Mr. VOIGT. Would you also say as a lawyer that the delivery of the warehouse certificate for the grain is in law a delivery of the grain?

Mr. THORNE. Yes, sir.

Mr. VOIGT. To try out your system, would we not steer up against the same difficulty that we do in the Tincher bill?

Mr. THORNE. I have suggested the adoption of the Tincher bill with the qualifications which I have previously stated. In my last reply I have simply repeated them.

Mr. VOIGT. I will say that I am heartily in favor of doing away with the gambling element, but my difficulty is devising a way to do that without interfering with the legitimate business.

Mr. THORNE. Would it not be best for you to say to the industry that you must devise a way to do away with gambling? We will give you two years to devise a way? I think it would be better to leave it to the industry and then, after two years, we will see——

Mr. VOIGT. I can not agree with you. I doubt whether it would be proper for this committee to recommend a bill and say, "You must do away with a certain thing. We do not know the remedy, but we are going to let you work out the remedy."

Mr. THORNE. I think Congress would always be justified in saying to any industry, the grain industry of any other industry, that it has to do away with gambling if you find it exists in that industry.

Mr. VOIGT. But if we say now that the gambling must stop, then we are stopping the hedging, and most of the legitimate people who have come before this committee have said they are in favor of retaining the hedge. My construction of that is that those people come here, and they are good legitimate people, and say, "We are opposed to gambling, but we want the privilege of hedging; that is, we want the privilege of gambling to a certain extent, but we do not want the other fellow to gamble." That is what it amounts to.

Mr. THORNE. If you start out with the promise that gambling and hedging are synonymous, of course you reach the conclusion you have personally reached.

Mr. VOIGT. I am unable to see where it is possible to hedge on the grain market without the element of gambling being involved.

Mr. THORNE. I have tried to state my answer in regard to that several times. I say that there is a constant delivery market. I can sell a future to be delivered 3 months, 4 months, 60 days, 30 days, or 10 days hence. There are such delivery contracts being consummated constantly. To the man who buys a "to deliver" contract, there is an element of gambling in it, if you want to interpret it in that way. He takes the risk of a change in price, but does not take any more risk than any other man in any other industry who buys steel, for instance, 30 days hence, or buys coal in that way. The contracts of the railroads for coal run a year hence. About the 1st of April those contracts are consummated. You buy land to be delivered March 1. That is a future contract. You are taking a chance. There is an element of risk there, but you do it.

Mr. VOIGT. But, my dear sir, you are talking now about a contract which contemplates an actual delivery. In my judging, that is not a hedging contract at all. That is all I want to ask you. I thank you.

Mr. HUTCHINSON. Mr. Thorne, you have repeatedly answered most of the questions I was going to ask you, but I want to ask you this one question, Are you in favor of reporting any of these bills and passing them as they are?

Mr. THORNE. With certain modifications which I have previously suggested; yes, sir.

Mr. HUTCHINSON. For instance, the Tincher bill.

Mr. THORNE. Yes, sir.

Mr. HUTCHINSON. I may have to ask you to repeat some of the answers you have already made. I am going to ask you in reference

to a future contract where the gambling commences, and I am going to make it specific. Suppose I live in the East, and we buy, say, 10 cars of corn a month from now until October 1 from Armour & Co. He has not got that corn, but he sells it to me to be delivered 10 cars a month, and if I do not sell against that corn, I am gambling to a certain extent, as you just said a moment ago, because I am running a risk.

Mr. THORNE. You are running the risk; yes, sir.

Mr. HUTCHINSON. Suppose I go on the market and sell a future contract to protect myself, do you call that gambling?

Mr. THORNE. If you sell a future contract which you do not expect or intend to deliver, I would think that that was gambling. You could protect yourself in the same method by betting on anything else. I think the courts have defined that as gambling.

Mr. HUTCHINSON. You say that would be gambling. Armour has not got the corn, and he goes on the market and buys a future to deliver that corn.

Mr. THORNE. You told me he did expect and intend to deliver the corn.

Mr. HUTCHINSON. You understand that if anybody buys a future contract and insists upon it, there must be a delivery.

Mr. THORNE. I thought you said Armour intended to deliver that corn to you.

Mr. HUTCHINSON. He does, but he has not got it. He goes out and buys the future to protect himself. He has not got it in his warehouse. He could not hold all the corn he has sold in the warehouse.

Mr. THORNE. It is not necessary for him to have the grain on hand if he intends to deliver it.

Mr. HUTCHINSON. He runs a risk if he does not protect himself.

Mr. THORNE. There is a risk there which is no different from the risk people are running in all other lines of activity in the United States.

Mr. HUTCHINSON. That is a hedge, is it not; is not that the intention of the hedge, that a man may make himself safe when he goes on the market and buys a future?

Mr. THORNE. The risk you speak of is not a hedge. I said that when Armour entered into that contract to deliver corn which he did not possess but expected and intended to possess there was a risk, but that is not the hedge. The way these other gentlemen define the hedge would be the second contract Armour would make at that same time to protect himself against these future contracts.

Mr. HUTCHINSON. That is the point I wanted to bring out. That could go on right down the line and still every one of those contracts, if they were insisted upon, would have to be delivered, would they not?

Mr. THORNE. You are speaking of "every one;" I understand two-thirds of what you have spoken of already will be delivered.

Mr. HUTCHINSON. Yes.

Mr. THORNE. None of those are gambling.

Mr. HUTCHINSON. None of those is gambling?

Mr. THORNE. Those that you said they expected to deliver are not gambling.

Mr. HUTCHINSON. When I buy 10 cars a month of corn of Armour & Co. to be delivered at a certain time and I sell against it, I do not expect to deliver that corn. I sell it out when I get my corn.

Mr. THORNE. You have described there two transactions. The first is not gambling and the second one you have described, as I understand it, was gambling. I say the first is a genuine, actual transaction.

Mr. HUTCHINSON. Then when Armour, expecting to deliver the corn, goes and sells a hedge, he is gambling?

Mr. THORNE. When he agrees to deliver grain to you in the future he is not gambling. When he goes on the market and buys a future that he does not expect to receive and does not intend to receive, he is gambling.

Mr. HUTCHINSON. He does that as a hedge, does he not; is not that a hedge?

Mr. THORNE. That is one form of hedge.

Mr. HUTCHINSON. But still, if Armour & Co. insists on that delivery, he can get it, can he not? They can not get away from that.

Mr. THORNE. You have rules on the board of trade permitting the substitution of parties and you have rules of the board of trade with reference to the appointment of a committee when you can not deliver, to determine the commercial value of the grain and to determine the damages. There are various ways of avoiding the delivery.

Mr. HUTCHINSON. But if he does get delivery, that takes away the gambling part of it?

Mr. THORNE. If he gets the grain; yes, sir.

Mr. HUTCHINSON. That takes away the gambling part of it even if he sold it or bought it to protect himself.

Mr. THORNE. It is owing to what the intent was. You can not transform the gambling into a bona fide transaction because of the fact it is impossible to tell what you intended. The best way of approximating is if he did not actually get the grain and did not have it, that it be defined as illegal.

Mr. HUTCHINSON. That was my idea in asking the question. Where can you draw the line between what is gambling and what is not gambling?

Mr. THORNE. As I have previously stated, it depends upon the intent. I think you will agree with me about that, and I think you will also agree with me that it is hard to determine what the intention is in a man's mind.

Mr. HUTCHINSON. That is what I say exactly.

Mr. THORNE. And the best way of approximating what the intent is, is to find out what a reasonable man would reasonably expect to happen under those circumstances. If in 99 cases out of 100 there are no deliveries, it is reasonable to assume that the expectation of those people is not to deliver, and therefore it is gambling. It is hard to limit that to the individual case. Taken as a whole, we know it is gambling, and you know it is, as all of these gentlemen have admitted, and I think the committee would unanimously agree to that. It is hard, however, at the same time to pick out a single transaction and label that as gambling until you know what the man actually intended.

Mr. HUTCHINSON. We will take, for instance, a big mill that grinds 200,000 bushels of grain a day. They have got to go ahead and buy

the futures. They protect themselves all the time by hedging. They are not parties to the gambling when they do that, are they?

Mr. THORNE. I would say as they do it at present, it is gambling. I represent some oil refineries. They have to contract for their crude and lots of them contract for it a year ahead. They do not find it necessary to maintain a Monte Carlo to go out and hedge on. They want to operate their refineries during the entire year and have enough crude to operate it, and they contract for it with certain qualifications as to changes in prices, which I should think the mill ought to be able to put in its contract.

Mr. HUTCHINSON. You know that a mill that grinds 200,000 bushels a day does not store more than two or three days' grind in the mill, and they have to do something in the way of futures to keep their mill going.

Mr. THORNE. What is to prevent it from doing what I just described?

Mr. HUTCHINSON. Get somebody to insure——

Mr. THORNE (interposing). I did not say insure. I say contract for the future delivery of the grain subject to certain qualifications as to changes in market prices.

Mr. HUTCHINSON. Do you think anybody would do that?

Mr. THORNE. They are doing it constantly in the oil industry.

Mr. HUTCHINSON. Would they do it in the grain business without any chance of protecting themselves?

Mr. THORNE. As to changes in the market prices?

Mr. HUTCHINSON. Or hedging.

Mr. THORNE. I do not see why you can not. The farmer has to do his transaction on that basis.

Mr. HUTCHINSON. But that is a small transaction.

Mr. THORNE. He goes to an enormous investment so far as he is concerned. Relatively, it is no more enormous than what the miller does but he takes the chances on the changes in future prices. He guesses and takes his chances a year ahead, and incurs a lot of expense, and this year he is losing millions and perhaps billions of dollars.

Mr. HUTCHINSON. Does the farmer sell a year or a month ahead?

Mr. THORNE. He runs the risk of all that expense.

Mr. HUTCHINSON. That is not the question. I asked whether he would sell ahead or does sell ahead.

Mr. THORNE. I do not think he sells ahead. He goes into all the investment ahead.

Mr. HUTCHINSON. There is no doubt about that. Then you do not know whether he sells ahead or not.

Mr. THORNE. I do not think he sells ahead. He may, if he is operating a very large plantation.

Mr. HUTCHINSON. Now, I want to ask you another question. The other day you made the statement, or at least I so understood it, that some one made an estimate of the grain to be delivered on contracts. Who makes that estimate? Was it on the Chicago Board of Trade? Where do you get those figures?

Mr. THORNE. Where I stated 18,500,000,000 as the approximate amount of future contracts?

Mr. HUTCHINSON. Not only contracts, but you said there was a certain amount available to be delivered on contracts.

Mr. THORNE. On future contracts?

Mr. HUTCHINSON. On any kind of contract, future or present.

Mr. THORNE. Under the rules of the exchange, I understand that the grain available for delivery on future contracts must be in regular elevators, with the qualification that during the last three days of the delivery month, it includes certain grain on tracks. The actual statistics were compiled, not estimated, as to the amount in the elevators available for delivery, and then we made an estimate as to the amount on the tracks.

Mr. HUTCHINSON. Who did that?

Mr. THORNE. State the title of the report, please.

Mr. TATOR. The reports are the reports of the Illinois State Grain Inspection Department.

Mr. THORNE. Now, that report does not include the grain during the last three days on the tracks. That was arrived at in this method: We estimated that approximately 10 per cent of that in the elevators was available to deliver on the tracks. We arrived at that figure of 10 per cent after counseling with a number of gentlemen in Chicago. One of them serves in connection with the warehouses, who did not authorize us to use his name, but he assured us that 10 per cent would be very liberal. We also counseled with various other persons in Chicago and all of them said it was very liberal. One member of the board said that 2 per cent would be a fair estimate. I do not think that the estimate of 10 per cent will be questioned by any grain man on the exchange.

Mr. HUTCHINSON. The other day you used a chart showing the prices of wheat in June and then on July 15th, and if I remember correctly, I asked you something about that but I did not get it clear in my mind. The June price was on the old crop, was it not?

Mr. THORNE. It was the cash price.

Mr. HUTCHINSON. That was the old crop?

Mr. THORNE. I used the figure for cash grain, No. 2 winter hard on the Chicago market as of June 1, and then each day on down to July 15, and then on down to July 31, and you spoke about there being a new crop coming in, and also varying estimates by the department which might affect that decline in price.

Mr. HUTCHINSON. On June 1 they do not know about the new crop. They can not estimate the new crop on June 1. Of course, they may estimate it, but there is nothing positive about it.

Mr. THORNE. I do not know that we are ever very positive about it.

Mr. HUTCHINSON. By July 15 they can tell about the new crop.

Mr. THORNE. Of course, it is always an estimate. You can not tell positively.

Mr. HUTCHINSON. Do you not think by July 15 they can tell how much winter wheat they have on hand?

Mr. THORNE. If you use that phrase the way it is used by the grain trade, but you can not estimate the entire crop. It is always an estimate, but the estimate is much safer and much better July 15 than June 1.

Mr. HUTCHINSON. It is always safer. You would not know how much new wheat you had on June 1, and you could only estimate it by guessing.

Mr. THORNE. As I stated before, it would be an estimate. It would be a much better estimate on July 15, very much better.

Mr. HUTCHINSON. I have been watching the market, and I notice yesterday wheat went down 5 cents a bushel, and it has been going down right along. What is the cause of that? It is not speculation, is it?

Mr. THORNE. Is not that going to require quite an extended answer? I do not question the fact of economic forces affecting these prices. I do not question the fact that news from abroad as to the supply and demand, news from at home as to the supply and demand, affect those prices. We do not take any exception to that, because we can not. No matter what machinery we devise, these forces will constantly have effect, but what we do say is that the dealing in the futures as now transacted serves to exaggerate those tendencies instead of stabilizing them. We say that, if there is a volume of betting going on here, 90 per cent of it betting on what the price is going to be the next day, there is bound to be enormous fluctuations created by the very existence of that gambling. Those people make the great bulk of their livelihood out of those price changes.

Mr. HUTCHINSON. I agree with you.

Mr. THORNE. It is that fluctuation we take exception to. As to what causes it, as to how much of it is due to one factor and how much is due to the other would be hard to state.

Mr. HUTCHINSON. For instance, last year we had a crop of 800,000,000 bushels of wheat, or practically that. If the crop had been 400,000,000 bushels, we would have had good deal higher prices, would we not?

Mr. THORNE. Pardon me.

Mr. HUTCHINSON. I say that last year our crop was about 800,000,000 bushels of wheat, taking the winter and spring wheat together, or 796,000,000 bushels, I think.

Mr. THORNE. I will take your word for it, sir, if you are speaking advisedly.

Mr. HUTCHINSON. That is about what we had. About how much more is that than we need in this country, do you know?

Mr. THORNE. Do you mean how much of that was made into flour in this country? Some of that flour is exported.

Mr. HUTCHINSON. I mean what is used or consumed in this country.

Mr. THORNE. I understand that the surplus stated in grain and flour over 200,000,000 bushels, while the surplus of wheat alone exported was estimated at 150,000,000 bushels. Does that agree with what you understand?

Mr. HUTCHINSON. That is about it. In other words, it takes about 600,000,000 bushels of wheat to feed our people.

Mr. THORNE. Let us assume that.

Mr. HUTCHINSON. When we go over that amount, that affects the price, does it not?

Mr. THORNE. Yes, sir.

Mr. HUTCHINSON. The exchange does not do that. It is the supply and demand?

Mr. THORNE. Absolutely; yes.

Mr. HUTCHINSON. You spoke about the Tincher bill allowing the exchanges to transact three times the amount of grain or to multiply it by three, or something of that sort. If this is wrong,

why should it not be stopped at once, and why should we allow it to be multiplied by three?

Mr. THORNE. Why did you not close the saloons at once.

Mr. HUTCHINSON. We are trying to.

Mr. THORNE. You did not do it immediately. You did not close the operations of the breweries at once. As to the effect of the decline there, being due to economic forces and supply and demand, I have a letter here that is quite instructive from Blanchard Randall, of Gill & Fisher. I understand he is one of the largest exporters in this country. This letter was written to Mr. Henry L. Goemann at Chicago, Ill.:

Referring to your letter of the 21st instant, I do not remember that I placed any figure in my statement of opinion regarding the export price possible for the surplus wheat of the crop of 1920, but I did oppose the return to option trading on July 15. I thought it wiser to await full information regarding our crop of both winter and spring wheat and until the demands of Europe were established. The violent fluctuations in the option markets would then have been restrained. There was no reason except the "smashing process" to break the December option in Chicago in two weeks from $2.75 to $2.06.

That is pretty near the quotations we had, but not quite.

Because all the while, every day, more wheat was being sold to Europe than was being brought from the country. The export sales were limited only by prudence on the part of exporters.

I believe in trading in futures is an essential part of the grain business from the producer's side, the miller's side, and the exporter's side. It would be a bad day for the grain trade if trading in "futures' should be abolished, but there is a vast gulf between the legitimate trade and the gambling element. This chasm should be bridged by the boards of trade themselves before both sides lose their footing.

The welfare of boards of trade, as well as the welfare of the merchants composing their membership, rests upon credit and reason. When a large part of our people discredits us for certain practices allowed under rules, and a state of unreason is produced which entails great loss on the public, then it is time for the boards of trade to take heed unto their ways and correct them by their own action before an unthinking and injured public opinion pulls down a building carefully erected during many years, but into which certain nuisances have gained admittance and been harbored unrecognized.

Yours, very truly,

BLANCHARD RANDALL.

I have no objection to the above letter being made public.

This gentleman is thoroughly in favor of the continuance of the future's market, although he also states, as a matter of fact, that the dealing in the options was the great factor causing the violent fluctuations during that period.

Mr. HUTCHINSON. Mr. Thorne, I have only one more question. I want to ask whether you have given any thought to this question. Suppose we close the exchanges in this country or prohibit them from doing any business, what effect will that have in the other countries.

Mr. THORNE. I think it would be very unfortunate for us as well as for other people to close the exchanges. I have repeatedly said so to this committee.

Mr. HUTCHINSON. Do you think that when you draw the line between gambling, or what you have already said is to a certain extent gambling or speculation, that the exchanges could live just on the legitimate grain?

Mr. THORNE. I think there will be a lot of members of the exchanges, from these figures that we have introduced, that get 90 per

cent of their living out of the gambling process, who will probably lose their means of livelihood and will have to devise some other method of getting it. I think that they will fight to the last ditch to prevent that happening. I think they will use pressure from all sources in America to prevent it from happening, but I do not see, because it would eliminate those people, why the balance of the exchange should not go on. Certainly, there are legitimate transactions operated on those exchanges of very great value to the farming industry, to the milling industry, and every one else, and I want to see that continued.

Mr. HUTCHINSON. But you are not ready to offer us any remedy to-day. You think the grain trade itself ought to offer the remedy: is that it?

Mr. THORNE. I think I have covered that. I think that we ought to now state to the grain industry that the gambling must stop, "and you have two years to do it in, but it must stop on and after a certain date."

Mr. WILSON. In answer to Mr. Hutchinson's question, you just stated that the gamblers were fighting this legislation and would continue to do so as long as they could, or as long as it was before the committee.

Mr. THORNE. I did not say that. I said I thought they would.

Mr. WILSON. You intimated it, which is the same thing.

Mr. THORNE. I guess you would do the same thing if you got the bulk of your livelihood in that manner.

Mr. WILSON. I do not happen to do that. I did not get my money in that way, but I do not remember that there has been any gambler before this committee, and I do not know that any of them have been represented before this committee.

I know we have had the board of trade people here, but as I understand it, the members of the board of trade themselves do very little gambling or speculating on the board. Their business is almost wholly that of a commission business.

Mr. THORNE. Mr. Boyle, who may be put forward as authoritative, said that 52 per cent of the futures are dealt in by members for themselves on which no commissions are paid; that there is 28 per cent dealt in by members for other members on which half commissions are paid. So that you would there have in the neighborhood of 80 per cent of the transactions on the futures markets handled by members for themselves or for other members. Now, as to the character of the transactions on the futures market, we have shown you that of 99.72 per cent of the amount bought and sold there is not any grain available for delivery.

Mr. WILSON. That may be true, but is not a good deal of that done through hedging and insuring themselves, as Mr. Hutchinson has said?

Mr. THORNE. All right; let us assume that four times the amount of actual grain might be considered as legitimate hedging, if you want to so interpret it.

Mr. WILSON. Is it not very much more than four times?

Mr. THORNE. All right; let us make it six times.

Mr. WILSON. I was just wondering if you had any figures along that line. I do not know a thing about it myself.

Mr. THORNE. I have not, but I do not think any of you will say it is more than eight or ten times at the maximum.

Mr. WILSON. I have no idea about it at all, myself.

Mr. THORNE. That would still leave 90 per cent of those transactions on the futures market.

Mr. WILSON. I know that Mr. Gates, when he was here was telling me, and I think he stated it before the committee, that his firm had been in business there ever since the early forties, a very long time, and in a way it is one of the oldest firms on the board of trade, and they themselves do not do any of this gambling at all, and I know that is the way with most of the firms of which I have any knowledge.

I fail to see why so much of the gambling which you speak about here is done by the board of trade people. I think the public generally go on the board, they are not members of the exchange, they have no connection with the board of trade whatsoever, they go in there and gamble—a great lot of this gambling is done without any membership whatever. I never have thought that the board of trade itself or its membership were the gamblers that you speak about to the degree of the public. Is that true or not?

Mr. THORNE. You have asked rather a long question. First, in regard to Mr. Gates, I have the highest regard for Mr. Gates as a gentleman. He has treated our group of agricultural associations with a great deal of courtesy. I have seen no indication of any lack of good faith at any time. He is a man of high standing. I do not know of his transactions, of course, personally. I do know, however, that he has quoted Boyle as an authority and I know that Boyle says that in the neighborhood of 80 per cent of the transactions in the future market are made by members for themselves or for other members. It is probable that 20 per cent may be the character of the transactions in which Mr. Gates deals entirely; I do not know anything about Mr. Gates's business. I will tell you what I should like to have you do. I should like to have you ask Mr. Gates to allow an examination of his books so as to find out about how many of these people for whom he has acted as agent have lost and how many have won. I am informed from a pretty good source that I can not quote that in fully 75 per cent of the transactions by the public they lose.

Mr. WILSON. Lose?

Mr. THORNE. Yes, sir. If I were one of that bunch of men handling the 80 per cent or 52 per cent I would have to make my money somewhere. Where would I make it? Would I make it off of the public as agent for them or as a member of the board acting through some other members of the board? If 20 per cent of the transactions is done directly by outsiders through members as agents, they are carrying a pretty heavy load. I think it would be very instructive to find out what portion of the public ultimately loses. Here is a great big speculative institution and it would be very satisfying to know that from the records of Mr. Gates or any other particular member of that exchange—an investigation of his books could be made by some governmental agency rather than by an outsider.

Mr. WILSON. The Federal Trade Commission did go over Mr. Gates's books, as the fellow says, "from kiver to kiver," and I

imagine that you can get that very information from the Federal Trade Commission if you want it?

Mr. THORNE. I know that I can not; perhaps you could.

Mr. WILSON. I think with your connections that you could get it published quicker than I could?

Mr. THORNE. The Federal Trade Commission has declined to give the information that is contained in their reports until they are published. We have sought access to them in advance of their publication and the Federal Trade Commission has stated that it could not be done. I was hoping that this committee would get access to the copy if it had come from the printer. There are several volumes, as I understand, unpublished. There are delays that might be avoided in the printing process, but the Federal Trade Commission has said that it shall not be public property for anybody until it is public property for everybody.

Mr. WILSON. I have no further query to make, except it did not seem to me that your statement should have accused the members of the board of trade of being the great gamblers.

Mr. THORNE. You are putting words in my mouth.

Mr. WILSON. You compared them with Monte Carlo and lotteries. I do not think it is fair myself, because I do not look upon them as that kind of people at all. I know a lot of them in Chicago, they are very high-class men. I know that they make their business by a commission, dealing for farmers and other grain merchants all over the country, and I know that they do very little gambling themselves on the board of trade.

Mr. THORNE. I never said they did. I have quoted you figures which they say are authoritative.

Mr. WILSON. I do not remember those particular figures. They did refer to the book as containing information which might be valuable to us; but that is all I care about.

Mr. THORNE. Gentlemen of the committee, I want it distinctly understood that I have not claimed that gamblers come here before this committee or have attempted to influence the committee. I have not indulged in any such statements. I have suggested that if there was a possibility of eliminating gambling, the people who get the bulk of their livelihood out of these transactions would fight it. That is a very natural surmise, a very legitimate surmise.

Mr. Chairman, I have a table that shows the variation in grades with the discounts and penalties for the substitution of different grades at the different markets, which I thought it might be desirable for you to have. It has been compiled simply from the rules of the exchange.

The CHAIRMAN. Without objection, the table will be included in the record.

(The table submitted by Mr. Thorne follows:)

Grades of grain at specified exchanges which may be tendered at contract price on contracts for future delivery at a premium over or at a discount under contract price.

Grades.	Chicago,[1] contract price.[5]			Minneapolis,[2] contract price.[6]			Kansas City,[3] contract price.			St. Louis,[4] contract price.		
	At—	Premium over.	Discount under.	At—	Premium over.	Discount under.	At—	Premium over.	Discount under.	At—	Premium over.	Discount under.
(A) WHEAT.												
Dark hard winter:		*Cents.*	*Cents.*		*Cents.*	*Cents.*		*Cents.*	*Cents.*		*Cents.*	*Cents.*
No. 1	X			X			X			X		
No. 2	X			X			X			X		
No. 3			5			[7] 5			5			5
Hard winter:												
No. 1	X			[8] X			X			X		
No. 2	X			X			X			X		
No. 3			5			[7] 5			5			5
Yellow hard winter:												
No. 1	X			X			X			X		
No. 2	X					[7] 5	X			X		
No. 3			5						5			5
Red winter:												
No. 1	X			([8])						X		
No. 2	X									X		
No. 3			5									5
Dark northern spring:												
No. 1	X			X								
No. 2	X			X								
No. 3			8			[9] 5						
Northern spring:												
No. 1	X			X								
No. 2	X			X								
No. 3			8			[9] 5						
Red spring:												
No. 1	X			X								
No. 2	X			X [10]								
No. 3			8			[9] 5						
Hard white:												
No. 1			5									
No. 2			5									
(B) CORN.												
White:												
No. 1		½			½		X			X		
No. 2		½			½		X			X		
No. 3			2	X					2½			[11] 2
No. 4			[12] 4½			[12] 4½						
Yellow:												
No. 1		½			½		X			X		
No. 2		½			½		X			X		
No. 3			2	X					2½			[11] 2
No. 4			[12] 4½			[12] 4½						
Mixed:												
No. 1	X			X			X			X		
No. 2	X			X			X			X		
No. 3			2½			2½			2½			[11] 2
No. 4			[12] 5			[12] 5						
(C) OATS.												
White:												
No. 1		½			½			1½		X		
No. 2	X			X				1½		X		
No. 3			1½			1½	X [14]					1½

[1] Authority: Pp. 51-52, Rules, By-Laws, and Regulations of Board of Trade of Chicago as of Dec. 1, 1920.
[2] Authority: Pp. 43-44, Rules and By-Laws of the Chamber of Commerce of Minneapolis, revised to Feb. 1, 1920.
[3] Authority: P. 69, Constitution, Rules, and Regulations of the Board of Trade, Kansas City, Mo., revised to Aug. 1, 1920.
[4] Authority: P. 38, Rules, By-Laws, Regulations of Merchants Exchange of St. Louis, as of Dec. 23, 1919.
[5] Rules applying on and after July 1, July 31, and Aug. 1, 1917.
[6] On all sales for future delivery the contract grade shall be No. 2 red spring wheat on the spring wheat future, and No. 2 hard winter wheat on the winter wheat future.
[7] Discount below the price of No. 2 hard winter wheat.
[8] It is not permissible to deliver hard winter wheat on contracts made for red winter wheat, or vice versa.
[9] Discount below the price of No. 2 red spring wheat.
[10] Unless otherwise specified all offers to buy or sell wheat for future delivery shall be understood to refer to the spring wheat future.
[11] No. 3, white, yellow, or mixed corn can not be delivered during the months of March, April, and May, except at 4 cents per bushel discount under contract prices.
[12] No. 4 corn can be delivered only during November, December, January, and February.
[13] Same as original note [12] with a further provision that No. 4 corn whose moisture content does not exceed the maximum required for No. 3 corn may be delivered on contract during the balance of the year, but in no case shall more than 25 per cent of No. 4 corn be applied on contract during any time of the year.
[14] No. 3 oats must test 26 pounds or better per bushel.

The CHAIRMAN. I infer from what you have said that the Federal Trade Commission has useful information which might be available to the committee?

Mr. THORNE. Yes, sir; in the shape of collected data to be embodied in subsequent publications, not yet published, that I wish to be made available as quickly as possible.

The CHAIRMAN. Is there anyone present having authority to speak for the Federal Trade Commission as to whether such information is available?

Mr. WATKINS. I am employed by the Federal Trade Commission. I can say that they have statistics of that nature.

The CHAIRMAN. Would that information be available to the committee?

Mr. WATKINS. I am informed it is not available as yet. A great deal of work has been done, but it takes a great deal of time.

The CHAIRMAN. Can you approximate the time when they will be available to the committee?

Mr. WATKINS. No; I can not.

The CHAIRMAN. Mr. Thorne, I understood you to say that the gambling should be prohibited after two years?

Mr. THORNE. I said that the gambling should be permitted for two years, but I said that I thought some other method of taking care of the hedging might be devised, and after that the gambling should be eliminated, after two years.

The CHAIRMAN. That is, to prohibit it after two years.

Mr. THORNE. I have said that the tax should be immediately provided by legislation to be effective two years hence.

The CHAIRMAN. The tax would practically prohibit it?

Mr. THORNE. I think so.

The CHAIRMAN. Would you limit the number of grades deliverable on a contract to a certain class? In Minneapolis there are nine grades for one class, in St. Louis twelve grades, in Kansas City nine grades and in Chicago twenty-four grades; would you be in favor of limiting the number of grades deliverable under the contract?

Mr. THORNE. Mr. Chairman, the number of variations as you have stated them are not quite those figures, but substantially what you have stated. In Minneapolis if you contract for spring wheat you have to deliver that to them, the contract specifically refers to spring wheat at Minneapolis. In Chicago there is not that distinction. You buy or sell contract wheat and any grade can be substituted with certain discounts and premiums for different grades substituted.

The CHAIRMAN. Does that table indicate the number that you have at Chicago?

Mr. THORNE. Yes, sir.

Mr. CHAIRMAN. Twenty-four?

Mr. THORNE. Twenty-three.

The CHAIRMAN. Either twenty-four or twenty-three. Some have said twenty-three and others twenty-four.

Mr. THORNE. The table also shows that in one market the discount or the premium is larger than in another market on the same substitution.

The CHAIRMAN. As to the number of grades, is there a fixed or commercial difference?

Mr. THORNE. I think that is a subject that should very properly be lodged in a disinterested tribunal or party to investigate with authority to act. I think I would not be prepared to say that there should be a restriction on the number of grades. It may be that a person after investigation would decide that there should be a restriction.

I understand that in Minneapolis they are mainly interested at the mills there in spring wheat. If you limited the contracts in Chicago to the delivery of spring wheat it might restrict the trading in the winter wheat, and the bulk of the tonnage is in the winter wheat. I think it would be very dangerous to recommend a restriction at this time, one way or the other, but I do say that it is a question which can be properly left to a disinterested party to decide. I have a concrete illustraton of it. I am informed—I have not investigated the original resources to state this positively, but I am informed that because of the excessive discounts on certain substitutes on the Minneapolis market they formerly penalized the producers of the grain, because of the inferior quality they were not getting a decent price. There was a vast quantity of grain properly deliverable up there which they could not sell because of the excessive character of the discount, but that after a period of negotiations that was reduced by the parties voluntarily. That demonstrated to me the fact that hardships can be worked because of excessive discounts for a substitution. We find that they differ 60 per cent. At Chicago, when they substitute No. 3, Dark Northern Spring, for contract wheat, it is 8 cents, and at Minneapolis it is 5 cents. The Chicago discount there is 3 cents and 3 cents is about 60 per cent of 5 cents. There is quite a substantial variation. There may be dockage included in the Minneapolis discount that differs from that at Chicago, or there may be some other factor—I do not know—but if they are for substantially the same thing, it certainly looks bad to have one 8 cents and the other 5 cents. That fact alone would warrant investigation by some disinterested party.

The CHAIRMAN. That would be overcome if fixed by disinterested parties instead of interested parties?

Mr. THORNE. I think that would be advisable.

The CHAIRMAN. I did not have in mind restricting operations to certain grades. For instance, if you contracted for spring wheat only nine grades would be deliverable under that contract, and if you contracted for winter wheat only the different grades of winter wheat would be deliverable. I take it that would necessitate installing a new system in Chicago.

Mr. THORNE. In Chicago you buy or sell contract wheat; you do not specify. If you specify spring or winter wheat they might do it on a new system, but under the prevailing custom it is not done. When you would contract for winter wheat then the discounts and premiums would apply. There might be a danger, Mr. Chairman, in installing a new system of dealing there whereby you would have to specify whether it was spring or winter wheat. If you did what they do at Minneapolis, the contract would specifically apply to spring wheat. I think that the spring wheat transactions at Minneapolis would not be advisable for Chicago. That part of the rule would be very objectionable to Chicago. The market is more elastic without restricting it in that manner. As to whether or not you

can also provide in the rules that you must contract for spring wheat or for winter, and deliver one or the other, as contracted, it might develop, as it has at Minneapolis, that the trade should then deal in spring wheat, and that should be the standard, but what would happen to the winter-wheat market?

The CHAIRMAN. I had in mind that any exchange might deal in the grades, but only certain grades would be deliverable on a contract. If you contracted for spring wheat, only spring wheat would be deliverable. What I have in mind is the protection of the millers and buyers.

Mr. THORNE. If you add a benefit to the miller you might add a hardship to the seller.

The CHAIRMAN. We first should determine the quality. I take it all the grades should be in accordance with the official standards of the United States?

Mr. THORNE. Yes, sir.

The CHAIRMAN. And the contracts should specify or qualify——

Mr. THORNE (interposing). The rules should provide.

The CHAIRMAN. The rules in the contracts.

Mr. THORNE. Which would be implied in any contract made.

The CHAIRMAN. If hedging, as I understood you, is to be permitted, there should be some limit, either by multiplying the number of bushels owned by a certain figure or a certain number of bushels that might be dealt in as a speculation?

Mr. THORNE. I doubt somewhat the efficacy of the latter method.

The CHAIRMAN. Anyway, there should be a limit?

Mr. THORNE. Yes, sir.

The CHAIRMAN. We thank you very much; we are very grateful to you, Mr. Thorne.

Mr. THORNE. I thank you.

(Thereupon the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee met pursuant to recess at 2 o'clock p. m.

The CHAIRMAN. Judge Burns, we will hear from you now.

STATEMENT OF MR. JOHN M. BURNS, OF WASHINGTON, D. C.

Mr. BURNS. Mr. Chairman and gentlemen of the committee, there seems to be the impression that I am appearing here as a representative of the Department of Agriculture. I think it is only fair to myself and to the department to remove that impression by stating that I am not here by assignment. I am presently employed by the Department of Agriculture in the Solicitor's Office thereof as a law clerk. I have held that position for five or six years, and as such participated to a considerable extent in the actual investigations made pursuant to acts of Congress conducted for the purpose of ascertaining the basic facts, generally speaking, connected with the grain industry, and in such capacity and enjoying such privileges, I necessarily gathered a great deal of information about the grain industry as a whole, and the future trading features of such industry.

I do not know precisely to what influence I am indebted for the honor of appearing before this committee. If the invitation came

as a result of any personal missionary work that I may have done, personally or through proxy, with any member or members of your honorable committee, I can only say that I am thankful; but I did not want to lead such member or members into thinking that I was assuming to be an expert on future trading and the multitudinous ramifications of the practical operation of the grain exchanges.

The CHAIRMAN. In order that the matter may be cleared up, let me say that it was suggested that you be called, and the committee resolved to invite you to appear before it.

Mr. BURNS. Thank you, Mr. Chairman.

The CHAIRMAN. Request was made of the Secretary of Agriculture that you appear before the committee and any other representatives he might care to have heard.

Mr. BURNS. Now, Mr. Chairman, for many months, as best I could with my feeble resources, I have been trying to put some fire upon the back of the Department of Agriculture and the Federal Trade Commission with the hope of getting them, severally or jointly, to publish the very comprehensive and very valuable information which the two departments succeeded in gathering some two or three years ago about the manner in which the great grain crops of the country are marketed, manufactured, distributed, and disposed of.

Had I succeeded in getting a prompt publication of those facts I think much of the burden which now confronts this committee as a collective body, and individually, would have been removed.

I want to say that I took my complaint directly to the Secretary of Agriculture, I mean Mr. Meredith, and that, so far as I know, so far as his influence went, he has been exerting that influence to get this data published.

The Department of Agriculture, through its various subordinates, probably a year and a half ago, wrote up from the data on hand, its report on private wirehouses, which necessarily involved a discussion of many phases of future trading. That report, I am informed, was communicated to the Federal Trade Commission. When the administrative branch of the department, in whose deliberations I participated, finished their work, as a matter of routine that report was referred to the Solicitor's Office for such action, legally speaking, as the Solicitor should see fit to take. As his representative I handled that report, and I think it will illumine the situation if I read to this committee my report to the Solicitor on that report:

The chapter on Speculative Commission Houses—these are my views as an officer of the Solicitor's Office officially communicated to the Solicitor—

The chapter on Speculative Commission Houses should be materially stiffened. That these large commission houses speculate on their own account and necessarily throw their influence against the interests of some of their customers can not, in my opinion, be censured too severely, and the report should specifically recommend changes which will put an end to such vicious practices.

The chapter on hedging tends to create the impression in the uninformed mind that hedging is a very simple matter. This is clearly erroneous, as the practical application of the seemingly simple principle of hedging is very difficult. The whole discussion of hedging should be angled so as to bring out this weakness. The drift of the article, by inference at least, would lead the uninitiated into the belief that all grain dealers hedge and needs must hedge in order to engage in such business successfully. The evidence gathered, on the contrary, shows that hedging is practiced by the minority rather than the majority of those engaged in the grain business and that the country grain buyers who do not hedge operate side by side with those who do hedge and pay the same price for grain.

It is significant, and the report should somewhere state, that country grain dealers, principally cooperative farmer elevators, specifically forbid their managers to hedge. The psychology behind this prohibition, as revealed by the record, is that hedging on the part of country elevators tends to lead to speculation or gambling and is therefore considered a dangerous practice, and, in addition, it is found that it requires a great deal of skill on the part of the managers of country elevators to properly manipulate the hedging facilities.

The record tends to show that hedging by country dealers is more general in the Minneapolis territory than in the Chicago territory, and that very little hedging is done by the country dealers in the Kansas City territory. Notwithstanding this fact, the record tends to show that the farmer gets a higher percentage of current, terminal prices for his grain in Chicago and Kansas City territory than he does in the Minneapolis territory, where the larger percentage of hedging is done.

In picturing an ideal condition of the market for successful hedging, the report leaves out one of the most important conditions, to wit, that after grain is hedged, in order to avoid loss the cash price and the option price must move on a parity; in other words, if the cash price changes 2 cents per bushel the option must show a corresponding change. It frequently happens that they do not move along uniform lines, and this, in my opinion, is one of the reasons why hedging is not more generally practiced.

Again, I think that the record under proper analysis will show that the existence of ideal hedging conditions is the exception rather than the rule, and that during much of the time the market does not furnish grain merchants or manufacturers with any carrying charge; in other words, the cash wheat may be worth in September $1 a bushel, when the December or May option is selling at a much lower figure. Under such conditions, it would be impossible for one buying wheat in September for the purpose of storing it or holding it until December or May, to provide for a carrying charge or the expense of holding through the future trading machinery. These actual statements illustrate that the article on hedging is entirely too favorable to the system and as written utterly fails to show up, as the record does, the imperfections of the system as an insurance facility for grain merchants.

The drift of all the testimony shows that it is the thought of those in the grain business that the insurance facility growing out of the conduct of future trading is more and more efficient as the volume of business done in options increases, and that the volume of business furnished by those legitimately engaged in the grain business can not suffice to furnish anything like adequate facilities for practical hedging. This supports the conclusion that the volume of the insurance facilities growing out of the operation of the future trading machinery is determined by the amount of trades made by those outside of the grain business; in other words, the speculator or gambler.

It therefore appears that the whole system of future trading rests upon widespread public gambling, and that the proponents of future trading in grain trade are asking for privileges of questionable value, at least, which involve widespread public gambling. Members of the trade invariably decline to discuss this big, economic and moral phase of the situation.

I feel that this fact being clearly established by the record should be featured in any report on future trading and should be discussed from both its economic and moral side.

The report as written, in my opinion, ignores the biggest question involved, and fails to present to the public and to the Congress the picture which we found. Therefore I am contending that the picture drawn by the department should at least be comprehensive and representative of the conditions as we found them and not as we would have them be.

I have not had a chance to read these statements which have been made before this committee—that is, all of them—nor have I had the pleasure of attending the hearings to hear the different parties make them. But as much as I have had an opportunity to read and all that I have heard seem to corroborate in every particular the statements set forth in my report to the solicitor.

I can readily understand how to the uninitiated this whole system of future trading is perplexing and bewildering. I can not forget my own experience as an investigator when I entered into the mystic

maze. I think I was on the job several weeks before I found out that they bought and sold wheat by the pound rather than by the bushel.

Now, gentlemen of the committee, I think this committee will get a great deal of light on the question of hedging if it will get the rules of the New York Stock Exchange. I am informed and believe—I never investigated the New York Stock Exchange, but I am informed and believe that the rules of that body to-day prohibit any person through their machinery from selling stock which he or they do not presently deliver. Mr. Thorne, if I understood him, took the position that much if not most of the gambling connected with the administration of the future pits on the Chicago Board of Trade was due to the habit of selling wheat when the person selling did not actually or potentially possess the wheat and had no expectation whatever of either actually or potentially possessing the wheat.

If the New York Stock Exchange can buy and sell stock options—probably I ought not to call them options—but if it can sell stock, and furnish a hedging facility for financial transactions, strikingly similar to some of the hedging facilities furnished by the grain options, and at the same time can prevent any person from selling my stock or your stock or your company's stock or my company's stock without delivery thereof, it is worth while for those who conduct and operate the grain exchanges to seriously and carefully investigate that situation.

Whatever we may think about the morals involved in acting as a go-between in the case of two employers, the great fact remains, if our record is reliable, that the broker members of the Chicago Board of Trade and kindred institutions in the United States do habitually act as go-betweens or agencies for bringing together two citizens who desire to speculate or gamble in grain, to wit, the fellow who wants to bet or wager that wheat is going down and the fellow who wants to bet that wheat is going up. In other words, to make a contract between these two bettors.

I think all the data shows that in many instances members of the exchange make much money or get much more revenue out of the execution of these gambling contracts for their clients than they do out of the execution of cash grain sales. These big brokers hold themselves out to the world, by advertisement and otherwise, as being ready and willing to take any offer to buy or sell for any person, with a few exceptions, to buy or sell grain and charge or collect a commission for the service. Necessarily such member broker of the exchange by his action indicates to you or to me, or to the great public—I should say the numerous public—that his only interest is to protect his patrons' interest, because he invites the bull and the bear to do business with him.

If I think wheat is going up I can go to one of them and say: I want to buy 5,000 bushels of wheat. And he will execute that order if other arrangements are satisfactory. The next second or minute you can go to that member broker and say: I want to sell 5,000 bushels of wheat. And he will take that commission. In other words, he will take both transactions, representing as they do diametrically opposite interests from a speculative standpoint. They represent themselves as being there for the purpose of taking care

of those transactions, that that is their primary and paramount interest.

If it be true that such broker, while these conflicting contracts of their bull and bear customers are pending, and without disclosing that fact to such customers, deliberately enters the market as a buyer or seller of grain, it necessarily throws the influence of that sale or purchase against either the bull or the bear customer, and to that extent is unfair to the customer injured or it tends to injure, or is a breach of trust at least.

Mr. VOIGT. Do you mind if I interrupt you for a question?

Mr. BURNS. Yes, sir; or, I mean that I do not mind.

Mr. VOIGT. I am in favor of wiping out this gambling on boards of trade if it can be done, but you made the statement that the conduct of a commission man was unfair, and a breach of trust to the customer, because he represented both sides of the transaction.

Mr. BURNS. And does something else, sir, and speculates on his own account at the same time.

Mr. VOIGT. Well, now, assuming that they do all that, the customer knows that these commission men are speculating, doesn't he? He knows that they are executing orders on commission; that he is gambling on the market when it is going up, and that he is gambling by executing orders on the market when going down, and the customer having possession of that knowledge how can the action constitute a breach of trust?

Mr. BURNS. But does he know that the broker himself is also making trades himself on his own account?

Mr. VOIGT. I think the average man who speculates through a broker knows that.

Mr. BURNS. Well, he should know it at least. My point is that he should know it.

Mr. VOIGT. Suppose he does not know it, and he goes in to gamble, then he takes all the risk that a gambler ought to take. So I can not conceive any breach of trust toward the man who wants to go in and gamble on the grain market. In the judgment of many that man is committing a breach of trust himself, or a breach of good faith I might say, in endeavoring to affect the market one way or the other without being interested in actual ownership of grain.

Mr. BURNS. Gentleman, if I go into a card gambling house and gamble, and there are any house players there I think in the world of sport you will find the universal sentiment to be that I should be so informed. In other words, that the house is not throwing its influence against me in case there are no house players there. Now, of course, we may differ about that. You are entitled to your opinion and I am entitled to mine, but I can not get away from the conviction that the broker and the operator should be segregated, and that is about the only specific recommendation that I have to make to this committee. This committee seems to be eager for specific recommendations as to how to eliminate some of these evils.

Now, the record might go further and show that these big brokers who execute the lambs' contracts, if I may use that expression, and I guess we all understand what the lamb in this case is; it is so easy, and there is a strong intimation in the data gathered that they do do it, it is so easy, and the temptation is so great—and I want to drive

that home, that from the human standpoint the temptation is so great for these brokers to combine and throw their collective influence against the stronger or the weaker side of their public patrons, either the bear or the bull side. If I correctly remember the report, that should have been long since published—and that is the gravamen of my complaint, gentlemen of the committee; the report that was turned loose by the Department of Agriculture, I think, corroborates the statement that these brokerage houses, members of the Chicago Board of Trade and other exchanges, not only speculated or traded on their own account, but that they showed each other their books. I am merely proclaiming the record and the facts; I did not make them.

Mr. HUTCHINSON. May I ask you a question right there?

Mr. BURNS. Yes.

Mr. HUTCHINSON. I understand that you have urged and that the present Secretary of Agriculture, Mr. Meredith, has recommended the printing of that report. Who is holding the printing of it up?

Mr. BURNS. Well, I went over to ask Secretary Meredith who had been holding that up for a couple of years and he in turn asked me who had been doing it.

Mr. HUTCHINSON. Well, then, you probably ought to have a new secretary. Is he the boss there?

Mr. BURNS. You will remember that he only came in recently.

Mr. HUTCHINSON. Has he the power of the Department of Agriculture to force anything like that out if he wants it done?

Mr. BURNS. I think at the time I was complaining possibly the Department of Agriculture had passed the buck to the Federal Trade Commission.

Mr. HUTCHINSON. What is your position there?

Mr. BURNS. I am a law clerk in the solicitor's office.

Mr. HUTCHINSON. You have nothing to say as to what shall be published and what shall not be published?

Mr. BURNS. I do not know how to answer that question. I know that there is a widespread idea that a subordinate Government clerk is a rubber stamp, and if you mean by that question to say that I am a rubber stamp I will accept that definition.

Mr. HUTCHINSON. You do not know of your own knowledge who is holding up this matter that you say is so valuable to the public and to this committee?

Mr. BURNS. Let me state the facts and do not put me to the embarrassment of drawing conclusions.

Mr. HUTCHINSON. I think this committee ought to know about that.

Mr. BURNS. I want to be as polite and courteous as I can, but do not want to be driven to the point of drawing conclusions that might not be fair. With your permission I will now read a letter that I wrote at the suggestion or invitation of Mr. Lyman, of the National Board of Farm Organizations, or rather that was written and signed by him. I very candidly told the Secretary and the solicitor that I was going out to find out why these reports had not been printed, and then that I was going still further, if Providence furnished me the instrumentality, to find out why these reports did not carry certain information. If the committee will indulge me I will read the letter. This letter was written at my suggestion by Mr. Lyman,

secretary of the National Board of Farm Organization, after I had talked to the Secretary, after I had talked to the Federal Trade Commission, or to some members of the Federal Trade Commission, in which conversations I told them that I was going to do my utmost to give the people of the United States and the Congress of the United States the benefit of information that they had paid for and by law had authorized their servants to get. And I am engaged in that humble but very disagreeable task at this moment:

NOVEMBER 15, 1920.

Hon. E. F. LADD,
Fargo, N. Dak.

MY DEAR SENATOR: Accept my heartiest congratulations. As United States Senator you now have opportunity in a still larger way to employ your great ability in service to agriculture, and, therefore, to the entire Nation—and I am confident you will do so.

May I trespass upon your patience, as I feel that I should lay before you some conditions which Judge John M. Burns, of the office of the solicitor, United States Department of Agriculture, disclosed to me recently that did exist, and no doubt do exist, in your State and throughout the Minneapolis grain belt and which have depressed unfairly, and doubtless are now so depressing, the farm price of wheat and barley in the northwest. I have personally investigated, so far as time would permit, Judge Burns' startling charges, and I am fully convinced that they are substantially true and that documentary evidence and record data exist which will fully corroborate his contentions.

In substance, Judge Burns says that the United States Department of Agriculture and the Federal Trade Commission, severally and jointly, are and have been in possession for more than three years of abundant record evidence and data which show conclusively that the Grain Bulletin, a price card issuing out of Minneapolis, has been, and no doubt is now, a price-fixing device under which the big buyers of grain at country points in the Minneapolis territory did agree, and probably now agree, to delegate power to one man—

With the committee's permission I will withhold the name of that man.

Mr. HUTCHINSON. Is he a member of the Department of Agriculture?

Mr. BURNS. No, sir. Oh, well; I just as well give it; it is Mr. Durant, the publisher of the Grain Bulletin.

The CHAIRMAN. Who is he?

Mr. BURNS. He is, in my opinion, the master mind of the terminal grain interests of Minneapolis and the Northwest. He publishes this price card.

The CHAIRMAN. You may continue with your letter.

Mr. BURNS. Continuing, I read:

a Mr. Durant, the publisher of the Grain Bulletin, to fix the price which they shall pay for wheat, barley, and flax and other grains at the country buying stations in several States. That this Grain Bulletin or price card has been, and now doubtless is, recognized by the grain farmers of these States as an index of the proper prices, as compared with current terminal market prices which they should receive for their grain; that Mr. Durant has operated and manipulated this arbitrary spread-fixing price card for the benefit of these large buyers, and that, in so far as feeble but recurring competition at different points in the northwestern territory permit it, Mr. Durant, through this price-fixing device, has enabled the large grain buyers at country points to exact excessive and sometimes larcenous profits on the grain which they have bought from the farmers; that Mr. Durant has persistently employed the influence thus acquired over the country grain market to destroy competition in the purchase of grain at country points wherever and whenever it appeared.

Judge Burns further says that this data also demonstrates that Mr. Durant has persistently, willfully, and arbitrarily depressed the farm price of barley

in order to furnish the exchange system with a practical illustration of the benefits which the hedging privilege furnished by the exchange confers on the merchandising of wheat, corn, and oats. Wheat can be hedged; barley can not.

Mr. YOUNG. Is barley not handled on the exchange?

Mr. BURNS. Wheat can be hedged and barley can not. I am speaking of conditions then; I do not know what changes have been made.

The country buyer therefore gives the farmer prices for his wheat closer to current terminal quotations than he does for his barley.

That is the standard argument out there.

In further corroboration of this statement, Judge Burns says that in the correspondence and records in the Grain Bulletin office, which were taken over during the investigation, many letters were found from country grain buyers to Mr. Durant vigorously and vehemently protesting against the low prices (as compared with current terminal prices) which the price card allowed them to pay farmers for their barley. Judge Burns aptly speaks of this condition as the exchange's crucifixion of farm prices for barley. He further charges that admissions secured by these departments from dominant personalities in the grain milling business, as well as abundant record evidence, demonstrate that the so-called farm price of the "Feed D" wheat crop of several years ago was outrageously depressed by the great milling interests of the Northwest, and that through willful and persistent misrepresentation of the flour-making qualities of this shriveled wheat berry they succeeded in filching from the farmers from 15 to 40 per cent of its true commercial value.

I think you are familiar with this proposition—

Mr. Ladd had made a great fight out there and that is why he was selected.

* * * and, if I remember correctly, the data referred to fully vindicates the contention which you made at that time with reference to the real value of this wheat. Judge Burns is deeply grieved that the United States Department of Agriculture and the Federal Trade Commission, upon the discovery of this evidence, failed to take prompt and vigorous steps to expose and eliminate the Grain Bulletin and also to communicate promptly these other vital facts to the farmers and people of the United States. These specifications constitute only a small part of the numerous and sweeping derelictions of duty with which Judge Burns charges the Department of Agriculture, and, incidentally, the Trade Commission. But as these charges are particularly applicable to your section of the country, and as it is quite probable, as Judge Burns says, that the Grain Bulletin levies its heaviest exactions upon a falling market, I shall not deal with other phases of the terrific indictment which Judge Burns has felt constrained to prefer against the intelligence or integrity of the administration of the Department of Agriculture.

In justice to Judge Burns, I want to say that before he came to my organization or invoked any outside aid, he laid his charges before Secretary Meredith, and says that he had a most sympathetic hearing. Judge Burns says that he did not lay his complaint before Secretary Houston simply because he felt that he would not get a smypathetic hearing.

I have made a request to get access to some of the records designated by Judge Burns, which are now largely in possession of the Federal Trade Commission. I am keenly curious to get an opportunity to review several thousand questionnaires relating to the Grain Bulletin which Judge Burns and another "fighting Irish" lawyer of the Federal Trade Commission, Mr. Flannery, succeeded in sending out to the country grain buyers. As Judge Burns, no doubt truthfully contends, most of the managers of country elevators belonging to the line elevators very frankly admit in their replies that they literally followed the prices indicated upon the card in the purchase of grain from the farmers because the "boss" gave them strict instructions to do so. Judge Burns repeatedly says to me that the operation and manipulation of this Grain Bulletin by Mr. Durant is costing the farmers of your State and the Northwest thousands and thousands of dollars every day and that the evidence in possession of these departments would warrant the Department of Justice in enjoining its dissemination, if only the evidence could be communicated to the Department of Justice with the proper analysis and recommendation. Judge Burns,

regardless of personal consequences, says that he is ready to cooperate in every way with the farm organizations in an effort to give the farmers and the people of the United States information gathered by the Government which so vitally and injuriously affects their interests.

Mr. HUTCHINSON. Who is Mr. Durant; what is his business?

Mr. BURNS. He is a very interesting personality.

Mr. HUTCHINSON. But what is his business?

Mr. BURNS. He is the editor or the publisher or the man who gets out what we call the Grain Bulletin. That is a price card that I am talking about.

Mr. HUTCHINSON. What connection has he with the grain trade?

Mr. BURNS. Well, I think that a comprehensive report of what we found in Minneapolis shows that he is the accredited spokesman, perhaps both in a legal and a political way, for the allied grain interests of the Northwest.

Mr. HUTCHINSON. Is he a member of any board of trade?

Mr. BURNS. I do not think so. He does not buy or sell grain himself. Maybe I have not made it plain to you?

Mr. HUTCHINSON. He is a common, ordinary editor of a grain paper, is that it?

Mr. BURNS. That is the way it looked on the surface, or not of a grain paper either. He does not discuss anything in his bulletin. He gets out a bulletin or card. Let me see if I can explain it to you.

Mr. HUTCHINSON. I know what it is, but I am asking you if you understand what it is?

Mr. BURNS. Yes, sir; I understand exactly what it is.

Mr. HUTCHINSON. I do not see what that has to do with regulating the grain trade. I might get out something of that kind myself.

Mr. BURNS. That is true, and if that were all the evidence I had I would be a slanderer in the statements I have made.

Mr. HUTCHINSON. Who is Mr. Ladd?

Mr. BURNS. I never saw Mr. Ladd. But he is the Senator-elect, if I am correctly informed, from one of the Dakotas.

Mr. HUTCHINSON. He wrote this letter to you personally?

Mr. BURNS. No; Mr. Lyman, I should have explained, wrote this letter to him.

Mr. HUTCHINSON. Who is Mr. Lyman?

Mr. BURNS. As I understand it he is the secretary of the National Board of Farm Organizations.

Mr. HUTCHINSON. In the Dakotas?

Mr. BURNS. No, sir; I think he is permanently located in Washington.

Mr. CHARLES A. LYMAN. I am right here, Mr. Hutchinson, if you want to see me.

Mr. HUTCHINSON. All right. Who is Mr. Burns?

Mr. BURNS. He is a law clerk in the Department of Agriculture and an American citizen and a taxpayer and a lover of justice.

Mr. HUTCHINSON. I want to get back to why these reports were not printed. Do you know of any reason why they were not printed?

Mr. BURNS. I can readily appreciate your keen interest, Mr. Congressman, and I will try the best I know how to answer that question. Chairman Thompson—I believe he is now chairman of the Federal Trade Commission—asked me the same question, and I told

him I did not know. He said, "Well, what do you think?" Then I said, "If you want to segregate my knowledge from my opinion I will give you my opinion." He then asked, "Well, what is your opinion?" I said, "They have not been printed and published on account of the obstructing influence of some powerful influence. That is my opinion."

Mr. HUTCHINSON. How long has that been going on in the Department of Agriculture?

Mr. BURNS. Sir?

Mr. HUTCHINSON. How long has that been going on in the Department of Agriculture?

Mr. BURNS. This report business?

Mr. HUTCHINSON. This keeping back of data.

Mr. BURNS. Well, I should say for three years.

Mr. HUTCHINSON. That is all I wish to ask.

Mr. YOUNG. Is this Mr. Burns who is speaking here?

Mr. BURNS. Yes, sir.

The CHAIRMAN. Let us know something about that investigation. When was it ordered?

Mr. YOUNG. I was just going into that, Mr. Chairman, if you will permit me.

The CHAIRMAN. All right. Suppose you pursue that inquiry.

Mr. YOUNG. Mr. Burns, were you ordered by the Department of Agriculture to make this investigation?

Mr. BURNS. Oh, no; but myself with many others. My particular assignment, if I recall it, was in the capacity of a lawyer.

Mr. YOUNG. How long since?

Mr. BURNS. I have not the data at hand, but my recollection is that I was in Minneapolis just after we entered the World War.

Mr. YOUNG. About three years ago?

Mr. BURNS. I should say so.

Mr. YOUNG. How long had you been in the Department of Agriculture at that time?

Mr. BURNS. I think I had been there nearly six years, or all of my time would amount to that.

Mr. YOUNG. Were you engaged in investigation work all that while?

Mr. BURNS. Do you mean all the while that the war was going on?

Mr. YOUNG. No; for the six years you have been there.

Mr. BURNS. Well, I have been a jack of many trades.

Mr. YOUNG. How long were you engaged in this investigation work in reference to the grain trade?

Mr. BURNS. I spent one winter in Minneapolis, the most of it.

Mr. YOUNG. Was that the only investigation that you made?

Mr. BURNS. No. I then went to Chicago, and was there for many weeks and perhaps months.

Mr. YOUNG. How many other people were interested in the investigation with you?

Mr. BURNS. A shifting personnel.

Mr. YOUNG. How many?

Mr. BURNS. Anywhere from 5 to 100, and sometimes 150.

Mr. YOUNG. One hundred people were over there at one time investigating this grain business?

Mr. BURNS. I mean that that many people were out there investigating it.

Mr. YOUNG. For the Department of Agriculture; that is, on the pay roll of the Department of Agriculture?

Mr. BURNS. No; I do not think the Department of Agriculture ever had that many there, but I was including both the Federal Trade Commission and the Department of Agriculture.

Mr. YOUNG. You say to this committee that these two departments combined would have at one time as many as 100 people out there engaged on this investigation?

Mr. BURNS. Oh, I am quite sure that that is within the record. But I do not see any use of pinning me down to that.

Mr. YOUNG. You are making some very serious charges here and we are Members of Congress——

Mr. BURNS (interposing). Yes, sir; I realize all that.

Mr. YOUNG (continuing). And we are appropriating sums of money——

Mr. BURNS (interposing). Yes, sir.

Mr. YOUNG (continuing). And you are making charges that would not ordinarily be made by a man who would remain on the pay roll of a department, a man who would make such a charge against his chief, and we as Members of the Congress want to know what the situation really is.

Mr. BURNS. I realize all that you say. I realize that I am taking my official life in my hands.

Mr. YOUNG. And you realize that a new administration is just about ready to come into power?

Mr. BURNS. Yes, sir. But mark you, I started my present outside effort to get this thing going long before November 2, which determined the coming in of a new administration.

Mr. YOUNG. After you made this investigation and you and these other gentlemen collaborated with you in getting those facts, when did you first file the data in the Department of Agriculture?

Mr. BURNS. Oh, I should say it was sometime in the spring succeeding the winter that we were out there. It may have been in the summer.

Mr. YOUNG. Of what year?

Mr. BURNS. Just now I would not attempt to tell you the year. It was the year the war opened.

Mr. YOUNG. It is very important for us to know. You are here charging these serious matters, and we have the right to know from you what the situation is.

Mr. BURNS. Oh, it ought to have been published long since, and if the committee wants to know I charge that the Department of Agriculture has been in possession of that data about three years, and I stand by that charge.

Mr. YOUNG. Who did you turn that data over to?

Mr. BURNS. I did not turn it over to anybody.

Mr. YOUNG. Who did?

Mr. BURNS. I suppose those in charge of it did so.

Mr. YOUNG. Who was it turned over by?

Mr. BURNS. I think Dr. Boyle started out, if I correctly remember the situation, as the head of the Economic Division of the Department of Agriculture.

Mr. YOUNG. He was the head man then directing this investigation?

Mr. BURNS. Yes, sir; for a while.

Mr. YOUNG. Who finally turned it over?

Mr. BURNS. Many men were going out and getting data and interviews and coming back and giving it in to the chief of the office. I think later on a man by the name of Cole succeeded Dr. Boyle.

Mr. YOUNG. When was that?

Mr. BURNS. After we left Minneapolis and went down to Chicago.

Mr. YOUNG. The committee does not know anything about those dates.

Mr. BURNS. I can look that up and will give you the dates by reference to the record.

Mr. YOUNG. I want to know when this data was collected and the man who was originally in charge of it whose duty it was to collate and publish it.

Mr. BURNS. Well, I can not tell you exactly whose duty it was. I do not know that there was any precise definition as to whose duty it was. Many men, I understood, were collaborating on this work. There was a Mr. Wright and a Mr. Butler and a Mr. Logan and a Mr. Cole.

Mr. YOUNG. Was it your understanding that this data was being gathered together for the purpose of being put in book form and issued to the public?

Mr. BURNS. That was my impression; yes, sir. I think—well, I will rest by saying that that was my impression.

Mr. YOUNG. You have been down there in the Department of Agriculture for six years?

Mr. BURNS. About six years; yes, sir.

Mr. YOUNG. Who normally would have been the man whose business it was to take this data that you gentlemen collected and assemble it and edit it and put it on the printing press?

Mr. BURNS. Well, all the field men with the exception of myself were connected with the Bureau of Markets, and Mr. Brand, if I remember correctly, was the chief of the Bureau of Markets at that time. I imagine that the particular man or men who was or were to study these records and analyze and summarize them and write them up would be designated by Mr. Brand.

Mr. YOUNG. Mr. Brand has been out for some time, hasn't he?

Mr. BURNS. For some time; yes, sir.

Mr. YOUNG. Who succeeded him?

Mr. BURNS. Mr. Livingstone.

Mr. YOUNG. Have you ever called it to his attention?

Mr. BURNS. Personally I do not remember whether I ever did or not. I am not sure about that.

Mr. YOUNG. Did you ever call it to the attention of Mr. Brand?

Mr. BURNS. Well, I think that Mr. Brand got out before I felt warranted in criticizing anybody. I naturally clung to the presumption that the thing would come out, and patiently awaited its coming.

Mr. YOUNG. You did not bring it to the attention of the successor of Mr. Brand?

Mr. BURNS. I do not know that I did personally.

Mr. YOUNG. Yet you are criticizing him for not collating this stuff and giving it to the public.

Mr. BURNS. I beg pardon again, Mr. Congressman. I am not criticizing anybody. You are putting words in my mouth. I am stating facts—that this information was gathered and has been in the possession of the department for about three years. That is all I have asserted. Mr. Hutchinson will bear me out that I asked him not to even attempt to corner me and make me state things that I did not want to state.

Mr. YOUNG. Well, you have made some very serious charges.

Mr. BURNS. Yes, sir; I agree with you as to that.

Mr. YOUNG. We are simply trying you out to see what you know about it. You make some rather remarkable charges against the grain trade, and about sending a price sheet out that I never heard of before in my life.

Mr. BURNS. I admit that they are startling. If they are true they are startling, and if they are false I am a slanderer and I ought to be punished.

Mr. YOUNG. You would have this committee believe that this man Durant just issued a card and said this is the price of wheat, barley, and so on, and the whole people in the business in the northwestern country would accept it blindly and go ahead with that price?

Mr. BURNS. If you will call for the——

Mr. YOUNG (interposing). That is what you are contending here, that this man Durant——

Mr. BURNS (interposing). I contend that we gathered these records——

Mr. YOUNG (interposing). Will you let me finish my question?

Mr. BURNS. But do not put me down as stating the matter any more broadly than I am doing it. I think you will agree with me that it is broad enough as it is.

Mr. YOUNG. It is very broad, I admit.

Mr. BURNS. I am contending that these departments are in possession of data which will justify that conclusion.

Mr. YOUNG. Who prepared that data?

Mr. BURNS. I read letters from country grain dealers protesting, and I read hundreds of them.

Mr. YOUNG. You would have this committee believe that it is your judgment from the data you obtained that the man who issued this card had great power, that the grain dealers followed that card, that by the ipse dixit of this man the price of grain was controlled in all that country?

Mr. MCLAUGHLIN of Nebraska. Mr. Young, may I ask a question right there?

Mr. YOUNG. Certainly.

Mr. MCLAUGHLIN of Nebraska. Mr. Burns, can you tell us anything about the manner in which you secured the information from the elevators, and whether or not they followed the grain prices issued by Mr. Durant?

Mr. BURNS. Yes, sir.

Mr. MCLAUGHLIN of Nebraska. Tell us, please, and that will help us.

Mr. BURNS. As I remember the situation, subject to the record. and the record exists—let me get this big thought before the committee, that if there was no record by which you could ascertain whether I am lying or telling the truth, if there was no record I would not be here. I know a hawk from a handsaw. I will now tell you the methods as I can give it to you from memory: My recollection is that the Federal Trade Commission took over the office of the Grain Bulletin——

Mr. MCLAUGHLIN of Nebraska (interposing). That is, Mr. Durant's office?

Mr. BURNS. Yes, sir; Mr. Durant's office. And we carefully went through the files, and we found therein copies of various price cards that he had sent out for many years back, I have forgotten how many years. We studied the form of those price cards, and they disclosed that Mr. Durant had zoned that northwestern territory, and had sent out cards carrying different prices for the same grade and quality of grain to different sections in that territory. There was the persistent rumor and charge that there was somebody behind those price cards; that that price card was the expression of an agreement, and that by some psychological hocus pocus, I know not what, that it had come to pass that it was accepted at the rural buying points throughout that territory as a fair index of what the elevator country buyer could afford and should pay for the country grain.

After getting all those facts as a lawyer, I knew that we had not made out a case. I realized that Mr. Durant could say: Why, I have got a perfect legal right to express my opinion as to what Mr. Smith, the country elevator, or Mr. Jones, the line elevator, here and there, should pay, or ought to pay, or may pay for grain; the law of the land does not prohibit that. But in order to determine whether it was just the expression of Mr. Durant's opinion, it was necessary to find out how much influence it did have out in the country with the grain growers and the grain buyers; and, again, whether it was the manifestation or expression of some secret agreement amongst the big grain interests or big grain buyers in Minneapolis.

In order to determine that fact we—and when I say "we" I mean the representatives of the Federal Trade Commission and of the Department of Agriculture—we prepared a questionnaire, and, as I remember it, we substantially asked in that questionnaire the following questions:

Do you take the Grain Bulletin?

If so, do you follow the prices indicated therein in the purchase of grain from the farmers?

If you follow such prices, state why you pay the farmers the prices indicated therein for their grain.

After we got the questionnaire made up as I have described we got the address of hundreds, and I think thousands, of country buyers, and particularly the addresses of the country stations and managers of the Minneapolis line of elevators.

Maybe I would help you a little bit if I were to tell you what a line elevator is. A line elevator is a grain buyer that has many agents and stations at different places, and that buys grain and usually has headquarters in the city.

We required those managers within a very short time, and I have forgotten how long, to answer those questions and return their answers immediately to the Minneapolis address of the Federal Trade Commission, and so forth and so on.

Well, the answers came in. I read many of those answers, and particularly those that came in from apparently rival and different line elevators engaged in the business of buying grain. Those answers read about as follows, as a rule:

We get the Grain Bulletin; or, We take the Grain Bulletin; or, The Grain Bulletin is sent to us.

I (or we) literally, or absolutely, or unconditionally, or positively follow the card.

I pay the prices for grain indicated in the card. I do so because my employer or boss told me to do so.

Now, gentlemen of the committee, I have read perhaps as many antitrust decisions, in fact I would not be stretching the blanket if I should say I have read nearly every antitrust decision handed down by any American court of last resort, State or Federal, up to a year ago, and I think I know what makes a pretty strong circumstantial case, and if these replies are as I say they are—and whether they are as I say they are is a matter that can be readily determined if those questionnaires are where they should be, to wit, in the archives of the Federal Trade Commission—I say, if those replies are as I say they are, I am willing to stake my reputation as a lawyer and a citizen that they make out an overwhelming case of circumstantial evidence against those big grain buyers, and it is a case that certainly should have gone to the Department of Justice.

Mr. HULINGS. A case against them for what?

Mr. BURNS. Of agreeing that Mr. Durant should fix the price, or agreeing together that they would pay the price, or instruct their managers to pay that price.

Mr. YOUNG. Let us see about that. You are asking this committee to accept as a fact that a man by the name of Durant can get out a set of papers on the price of the grain crop in the Northwest, and that there is not intelligence or manhood enough in that great northwest country to rise up against that kind of thing and prevent Mr. Durant, by his obiter dictum to control that price. Is that what you tell us here?

Mr. BURNS. I must confess, Mr. Congressman, that I am not astonished at your astonishment. And as much as you are astonished you are no more astonished than I was when I found the record.

Mr. YOUNG. Aren't there daily papers in circulation all over that country?

Mr. BURNS. Yes, sir.

Mr. YOUNG. Do not the daily papers give complete information about the grain prices, and do not those daily papers go into every county and precinct?

Mr. BURNS. Oh, yes, sir.

Mr. YOUNG. What has such a card got to do with the matter then?

Mr. BURNS. Well, if that is true, will you explain to me why thousands of stupid country grain buyers subscribe for it and pay for it?

Mr. YOUNG. Oh, I assume——

Mr. BURNS (interposing). How do you explain their stupidity in going to that great expense, probably $10 or $15 a year?

Mr. YOUNG. I assume that in an intelligent country like the great Northwest—and I have never seen the figures given by Mr. Durant, but I assume that he puts on his paper or card what the daily papers carry.

Mr. BURNS. I beg your pardon. There is no daily paper that I know of that carries the price that the farmer receives for grain at the little hamlet or village out in the country.

Mr. YOUNG. Those farmers get the daily papers, do they not?

Mr. BURNS. Yes; but the paper says what the market was yesterday in Minneapolis.

Mr. YOUNG. And in every town of every size they have their bulletin board from which they get their quotations every minute in the day?

Mr. BURNS. It might surprise you that our records showing bids to arrive go out from Chicago but do not go out from Minneapolis.

Mr. YOUNG. Those instrumentalities I have mentioned give the prices from every market all over our country?

Mr. BURNS. I am very patient with the committee——

Mr. YOUNG. You need not express your patience; you need not reply back in that kind of manner at all. I am addressing a question to you now. These bulletin boards show the quotations by telegraph both as to grain and cotton and all the cereals, and that goes to every town of very considerable size, giving the quotations every minute of the day. And yet you are asking this committee to believe that there is a great hullabaloo about a price card sent out by a man named Durant.

Mr. BURNS. You are doing me an injustice when you say I am asking the committee to believe me.

Mr. YOUNG. You stated a fact.

Mr. BURNS. I am calling this committee's attention to the data and records in the possession of these departments.

Mr. YOUNG. You stated what that record was and what that data was, and you are now complaining that the Department of Agriculture does not publish it; and, if the construction you have put on it in your report is the same thing we get here, I do not wonder.

Mr. BURNS. You are entitled to your opinion, sir.

Mr. MCLAUGHLIN of Michigan. Were you in Minneapolis at the time these questionnaires were sent out?

Mr. BURNS. Yes, sir.

Mr. MCLAUGHLIN of Nebraska. When these reports came back, did you have any talk with Mr. Durant or anybody else about the reports that came in?

Mr. BURNS. I had lots of different conversations with Mr. Durant from time to time.

Mr. MCLAUGHLIN of Michigan. Did you ever have any conversation with him relative to the depression of the price of barley as compared with other grains?

Mr. BURNS. Yes, sir.

Mr. MCLAUGHLIN of Nebraska. What was the result of that conversation?

Mr. BURNS. I asked him to explain these complaints made by country grain dealers about the discount that he made on barley, and why he made larger discounts on barley than he did on wheat; and, of

course, he said the greater the risk the greater the discount. Wheat can be hedged, and barley can not; and, if a country grain buyer can not hedge barley, he is running a bigger risk, and therefore is entitled to a bigger margin.

Mr. HUTCHINSON. Right there; you are not opposed to hedging, are you? You say that barley can not be hedged.

Mr. MCLAUGHLIN of Nebraska. He was giving Durant's answer; he was not giving his own.

Mr. BURNS. Yes. I do not know whether I am opposed to hedging or not; that is a matter I have not reached a conclusion on.

And then I said to Mr. Durant, "Well, if that is a fact, why do they not extend the hedging privileges to barley? Why let barley stay out in the cold? Barley is a big important crop up here in the northwest." And he scratched his head, as I remember the situation, and said, "Well, you can not grade barley, and therefore its unsusceptibility to grading makes it ineligible for the protection which future trading confers upon it.

I did not know whether that was correct or not. Perhaps I was a sort of a doubting Thomas. Anyhow I called, in conjunction with the representative of the Federal Trade Commission, before us the expert barley buyers and separately questioned them about the susceptibility of barley to grading, and those records exist. If I correctly interpret them and remember them, they were unanimous in opinion that barley was just as susceptible of precise grading as was wheat; and I do not know whether it is true or not, but it has cropped out somewhere in the statements made before this committee that barley is now on the future boards and is being traded in.

Mr. HUTCHINSON. Judge Burns, are you through now making the statement against the Department of Agriculture? Have you anything else to say about what they have not done?

Mr. BURNS. Not at this time; no.

Mr. HUTCHINSON. Then, I want to ask you two or three questions. When you first started you said you were in the Department of Agriculture, and that after six months you found out that the wheat was sold by the pound and not by the bushel?

Mr. BURNS. I said when I went out on that investigation on which I was engaged for several weeks that I thought it was sold by the bushel.

Mr. HUTCHINSON. Is it not?

Mr. BURNS. The price is fixed by the bushel, but when you go to sell it they do not use a bushel measure in determining how much you have got: they weigh it and divide by 60.

Mr. HUTCHINSON. I know, but is it not sold by the bushel?

Mr. BURNS. No, sir.

Mr. HUTCHINSON. They say each bushel of wheat weighs 60 pounds?

Mr. BURNS. Yes, sir; but sometimes 60 pounds of wheat will be five pecks or four and a half pecks while in another case 60 pounds of wheat might weigh just a bushel or slightly less, by dry measure.

Mr. HUTCHINSON. Which is the best way, by the pound or by the bushel?

Mr. BURNS. It depends on how the nomenclature itself mixes one up. I only offer that for what it is worth. I say it ought to be listed on the board at so much for 60 pounds rather than a bushel. For instance, suppose I was just an ignorant country man with some wheat, and I just had a bushel measure and no scales, and somebody would come along and say, "I will give you a dollar a bushel for that stuff," and I took it and put it in the bushel measure, and I found I had two bushels; and then when he came to pay me, he would say, "Wait a moment. I can not pay you $2 for that, yet I did agree to give you a dollar a bushel." "Here is two bushels?" "Oh, no. I have got to weigh this. If it weighs less than 120 pounds I will pay you less."

Mr. HUTCHINSON. You do not mean to say that you would like to see or be in favor of having a bushel of shriveled wheat that weigh 40 pounds sold for a bushel? Do you think that would be a fair proposition?

Mr. BURNS. No, sir; I do not; but I would like to see that wheat quoted at 60 pounds.

Mr. HUTCHINSON. A bushel of wheat weighs 60 pounds?

Mr. BURNS. Yes, sir.

Mr. HUTCHINSON. I can not see what your object is in making that assertion; what the distinction is. What do you mean? What is your object in saying you found out it was sold by the pound instead of by the bushel?

Mr. BURNS. Congressman, suppose I just went out in the country, not knowing about the rules of the market, and somebody had come along and said, "Burns, I will give you a dollar a bushel for 10 bushels of wheat, if you will bring it to my house to-night." Suppose I went on out in the country and I found a farmer who had a pile of wheat which just evenly filled a bushel measure 10 times, and I said to him, "I will give you 95 cents for that wheat. I know where I can get a dollar for it." And he measures it out, and there were 10 bushels; it just filled the bushel measure evenly 10 times. Then suppose I went back to the man—say it was light-weight wheat—instead of weighing 600 pounds it really only weighed 500 pounds.

Mr. HUTCHINSON. Then it would not be 10 bushels, would it?

Mr. BURNS. If you will just let me illustrate. I go back to the man who told me he would give me a dollar a bushel for it. Out there in the country I had bought this wheat on the bushel basis, not the pound basis. I would go back to him and say, "I have just bought 10 bushels of wheat for you; I saw it measured; I saw it put into the bushel measure; there are 10 even bushels in that pile." He would say, "You just made a mistake. I meant I would give you a dollar for 60 pounds of wheat." There is where the confusion arises.

Mr. HUTCHINSON. You were speaking about the stock exchange in New York, and stated when the grain exchanges got on the same basis as the New York Stock Exchange it would do away with future selling. Are not stocks sold on a margin on the New York Stock Exchange?

Mr. BURNS. I think so.

Mr. HUTCHINSON. What did you mean by saying that?

Mr. BURNS. I mean to say this: If I understand the rules of the Chicago Board of Trade, I can go out there——

Mr. HUTCHINSON (interposing). We are talking about the New York Stock Exchange now.

Mr. BURNS. As I understand it, if I went there to sell 10 shares of stock through the New York Stock Exchange, or a hundred shares of stock, my broker would have to make arrangements to get hold of 100 shares of stock before he could execute my contract; whereas if I wanted to sell 5,000 bushels of grain my broker in Chicago would not have to get hold of 5,000 bushels of grain.

Mr. HUTCHINSON. You would have to put up a margin in each case, would you not?

Mr. BURNS. Oh, yes; I think they both sell on margins.

Mr. HUTCHINSON. Then it is really future trading, is it not?

Mr. BURNS. Oh, yes, sir.

Mr. HUTCHINSON. Did you not say they did not do any future trading on the New York Stock Exchange?

Mr. BURNS. I beg your pardon, sir.

Mr. HUTCHINSON. That is the way I understood it.

Mr. BURNS. All I was trying to drive home to the committee. There is an apprehension on the part of the proponents of the exchange machinery that if you prohibited the outside public from selling wheat they do not possess at the time of the sale that you will destroy much of the speculation out of which comes the insurance facility.

Mr. HUTCHINSON. I just want to correct you. You were trying to impress upon this committee something to do away with future trading in the grain and referred to the New York Stock Exchange, and stated that when we got on that basis there would not be any future trading. Is that the impression you tried to leave with the committee?

Mr. BURNS. There would be very much less future trading, but it would not at the same time destroy the hedge. If the Chicago Board of Trade revised its rules and forbid any member from executing a contract to anybody who did not have the wheat and who did not at the time of the making of the contract deliver the wheat, from making a trade, I contend that it would still leave the hedging principle.

Mr. HUTCHINSON. And stocks are sold on a margin when they do not have them at all.

Mr. BURNS. I was just trying to drive home to you, Congressman, if I understand the rule, the broker before he sells stock for me must first get hold of the stock; he must have it in his possession. He must do that under the rules of the New York Stock Exchange; he must get hold of the stock, and at the time he executes the order or within 24 hours after he executes my trade, if you were the buyer, he must get that stock over to your broker.

Mr. HUTCHINSON. If you put up the margin?

Mr. BURNS. If I put up the margin, etc.; yes, sir.

Mr. HUTCHINSON. I do not know anything about it. I am asking for information.

The CHAIRMAN. That is really a cash transaction?

Mr. HUTCHINSON. I have reference to this stock exchange.

The CHAIRMAN. That is a cash transaction?

Mr. BURNS. It operates on the margin basis, except that you only pay what the rules of the exchange require you to pay.

Mr. VOIGT. If I may ask you a question there. The fact that the basis of the broker business in New York on the stock exchange is necessarily for the purpose of making speculation, it does not do away with a lot of gambling and speculation on the stock exchange?

Mr. BURNS. No, sir; but it tends to limit speculation. Frequently you read where the board of directors of the stock exchange says that no more trading shall be done in such and such a stock, due no doubt to the inability of anybody to get hold of any more of that stock to deliver.

Mr. VOIGT. That is a matter of self-protection, you might say?

Mr. BURNS. Yes, sir; it is to prevent corners. I am satisfied that is the psychology of it.

Mr. VOIGT. Northern Pacific stock some years ago went up to over $10,000 a share.

Mr. BURNS. Yes, sir; because it was oversold.

Mr. VOIGT. There was a case where the men who had sold Northern Pacific stock were unable to make delivery of the certificates?

Mr. BURNS. Yes, sir. Probably this new rule grew out of that situation or condition—I am not prepared to say; but it is worth while to investigate it.

Mr. VOIGT. As I understand it, the method of trading has not been changed for many, many years. So that would show the fact that there was a corner in Northern Pacific stock, due to the fact that people who had sold that stock could not deliver.

Mr. BURNS. Yes, sir.

Mr. VOIGT. That would show that some people had sold stock who were not in possession of it?

Mr. BURNS. Yes, sir.

The CHAIRMAN. Was that it, or was it simply to get control of the stock? It could be either, I suppose?

Mr. VOIGT. It was reported in the papers at the time that it was due to the inability of sellers to make deliveries, from which you can draw the conclusion that certain people had sold that stock who did not have it.

Mr. BURNS. If I understand Mr. Thorne's position before this committee, it was to prohibit anybody who had no grain and did not expect to get any grain from going in there on the board and selling unlimited quantities of grain.

Mr. HULINGS. Did you make up your mind as to the comparative amount of phantom grain sold on these exchanges compared with the actual grain that was handled?

Mr. BURNS. I reached no definite conclusion, sir. I got the impression that the phantom grain was a very high percentage of it, maybe 8, 10, 12, or 15 times the actual grain.

Mr. HULINGS. Do you think that the dealing—I think you expressed it a while ago as "gambling"—in grain enables those gamblers to perform any useful function in trade?

Mr. BURNS. In the broader sense, I would say they do not. Of course, that gambling carries an enormous revenue and income to the city of Chicago, and a certain element of its citizens. It would

not surprise me at all if the income of the board of trade membership does not run into hundreds of millions of dollars. It is a princely revenue producer.

Mr. HULINGS. Where a lot of people sit around in a room watching a blackboard, which they used to call a "bucket shop," where the broker simply sells everything they want to buy and buys everything they want to sell, taking his commissions off both ways, that is purely gambling, is it not?

Mr. BURNS. From the bucket shop standpoint?

Mr. HULINGS. Yes, sir.

Mr. BURNS. You can not exactly call that gambling, simply because he is merely ringing out—he is running a gambling place.

Mr. HULINGS. That can not have any effect on the market one way or the other, because the whole transaction is confined within that room?

Mr. BURNS. In a sense, it might have, for this reason: I might be a big miller, you understand, and I am determined to hedge some big transaction in grain. Do you catch the point? I might have a friend whom I thought was solvent running the bucket shop. Solvency is the thing I want. I could go over there and make that trade with him, and he would take it. That would keep me from going on the exchange and making it; in other words, it would have a negative influence.

Mr. HULINGS. In the greater part, those transactions in that bucket shop could not have any effect on the market itself?

Mr. BURNS. It certainly would not affect it nearly as much as if it was executed on the exchange.

Mr. HULINGS. How would you make any distinction between a transaction of that kind in a bucket shop and where the bucket shops are abolished, and now they have a line into New York, where that broker sends his order in to another broker on the exchange, which may or may not be an actual transaction.

Mr. BURNS. That is what they call the branch-house business; in other words—here is the impression I got—that the exchange drove the bucket shop out, and then some of its membership substantially reestablished it by starting a branch house where the bucket shop once thrived.

Mr. HULINGS. They then got two commissions out of it where before they only had just one?

Mr. BURNS. Yes, sir. This is the thought I want to get before the committee: The exchanges of the country—the live-stock exchanges, the grain exchanges, and other exchanges, if I understand the situation—are tremendous enterprises, the operation of which involves fabulous sums of money—public money, some of it. Their operations certainly vitally affect for good or bad the social and economical life of the Nation. Concede that the men who operate them and control them are the best men in the world, yet I think I am within the moral facts when I say that however good they are, they are no better in my opinion than are the bankers of the country.

If I correctly understand our public policy as expressed in our legislation, both Federal and State, everywhere the banker and the bank has in varying degrees, but to a substantial extent, been brought under the police power of the Government. So far these great grain

exchanges, these powerful live-stock exchanges have in some way escaped direct Federal or State police legislation.

I think for a broker to take my trade and your trade, and then while our trade is in existence to himself enter the market and throw his influence against one or the other of us is unfair, and if they compare notes and combine for that purpose it is still more and more unfair.

Mr. HULINGS. The evidence has been very largely that these institutions are very necessary to stabilize or in giving a degree of insurance in trade, and that it is very valuable—not only very valuable, but absolutely essential to the maintenance of these great exchanges.

We do a large business in shoes. Do you know of any place where you can sell a future in shoes and insure your contract; or, in lumber and coal?

Mr. BURNS. I do not, Congressman. But they will admit that, and then counterargue, "Do you know anything that moves from point to point in the process of distribution and consumption on such a small margin as does some commodity covered by this future trading machinery?"

Mr. HULINGS. You do not think that is an answer as a reason for establishing the grain exchanges?

Mr. BURNS. If a business man ever finds a way, Congressman, to entirely eliminate the risks from his business, he immediately ceases being a business man and becomes a sure-thing player; and in my judgment if it were possible to work out a way by which all of us in the various lines of business could find some perfect system of insurance it would result in economic stagnation.

Mr. MCLAUGHLIN of Nebraska. Relative to this insurance matter, did you, while you were with other members in either Chicago or Minneapolis, take up with them the matter of the cost of this insurance on grain and do anything?

Mr. BURNS. Yes, sir; I gave particular attention to that phase of the investigation.

Mr. MCLAUGHLIN of Nebraska. If you can state in a few words the result of that, I would like to have it.

Mr. BURNS. The acid test of this insurance—Mr. Gates, the ablest proponent and perhaps defender of the exchange system, says it is good or bad as it is insurance. Therefore, I think we lay the acid test upon the situation when we look into the extent of this insurance. I think the record as it is now developed in these hearings will show that even its stoutest advocates admit that it only partially insures, and any time you find the distant months quoted lower than the cash price or the less distant month, there has been a further reduction of its insurance value, simply because it means the utter disappearance of the carrying charge and renders the thing utterly valueless to the country end of the business, at least.

The way to find out whether insurance is good or bad is to find out what it costs. Using that idea, I put the question to several of the prominent members of the exchange and grain brokers and dealers out in Chicago, and I asked them if they had ever thought about what it cost in dollars and cents, and my recollection is that one of the gentlemen said "Yes." I said, "Well, what does it cost—

what do you think it costs society, anybody, and everybody?" He replied, "About one-thirtieth of 1 cent per bushel, when the total cost is spread over the number of bushels handled." I asked him to give his factors, as I differed with him in his conclusions, and he stated the factors, briefly, were about as follows: That perhaps everybody, society as a whole, paid $200,000,000 a year in the shape of commissions and losses for this insurance, and that the country produced 5,000,000,000 or 6,000,000,000 bushels of grain; and then when you spread this total over the entire number of bushels of grain that the result would be one-thirtieth of 1 cent per bushel. Using his factors and getting him to run out the calculation, my recollection is that they finally agreed with me that it would cost 5 cents per bushel, taking his factors.

You can readily see there is quite a difference between 5 cents per bushel premium for insurance and one-thirtieth of 1 cent per bushel for insurance.

Then I asked him, "What did you pay that 5 cents for—to insure you against what?" "Why, to insure against the fluctuation in grain." I said, "Well, take corn or wheat. What is the normal annual fluctuation in corn or wheat for a year?"

After some hesitancy, finally somebody said, "Well, 25 or 30 or 35 cents a bushel, maybe, from high to low during the year." Of course, that was before the dizzy fluctuations of the war came upon us.

I said, "Well, it is fair, is it not, to consider the law of average; in other words, it is just as apt to go with you as against you?" "Well," somebody said, "Yes; I think it is." Somebody said, "No." I said, "Very well, we will just consider it. Say it is 30 cents. Do you not think it is a pretty high rate of premium for insurance that you have to pay 5 cents for your policy in order to insure a bushel of wheat against a maximum loss of 30 cents for the year?"

I just merely give this to lay before you gentlemen the cost in dollars and cents.

Mr. HULINGS. How do you make out that it costs 5 cents?

Mr. BURNS. It was spreading out; it was the $200,000,000 cost and spreading it over 5,000,000,000 bushels of grain.

Mr. VOIGT. Let me ask you a question right there: Suppose you were the owner of an insurance company, the director of it, and had unlimited capital behind you, would you be willing to write an insurance policy at 5 cents per bushel premium, guaranteeing the fluctuation in the price of wheat or corn?

Mr. BURNS. I do not think I would, Congressman, to be candid.

Mr. HULINGS. You would consider doing it sooner than if you were getting only one-thirtieth of 1 cent?

Mr. BURNS. I know that is a very high price to pay for insurance against such a fluctuation. Of course, the fluctuation might be greater; since then the fluctuation has been greater. I can not give you the exact dates, but I recall I think it was last winter or it might have been the winter before that corn in the period of 100 days in the winter time, when corn was not growing anywhere, if I am correctly informed—in 40 or 50 days went down 50 or 60 or 75 cents, and in the next 40 days climbed up 50 or 60 cents. Of course,

an insurance company on the annual policy would have gotten the benefit of all that.

Gentlemen, let me read one letter, and so far as I am concerned, I am ready to quit. I want to read a letter that I wrote for the office, which in my opinion is pertinent to this issue. It deals with the live-stock exchange.

The CHAIRMAN. There seems to be a great deal of the difficulty in differentiating between destroying the exchange and just regulating trading in futures. I think this committee understands what the opponents are after—not the cash features or the places where cash grain is bought and sold, but merely the future trading transactions.

Mr. BURNS (reading):

UNITED STATES DEPARTMENT OF AGRICULTURE,
BUREAU OF MARKETS,
Washington, D. C., June 24, 1919.

OMAHA LIVE STOCK EXCHANGE,
Omaha, Nebr.

DEAR SIRS: A careful study of the evidence presented at the hearing held at Omaha, Nebr., April 10, 1919, substantially shows that the Omaha Live Stock Exchange and its members apparently are in effect boycotting and propose to boycott any other live-stock marketing agency at the Omaha Union Stockyards whenever it appears that such agency is selling live stock for a charge less than the commission rates for such service prescribed by the Live Stock Exchange. The rules of the Live Stock Exchange, as construed and applied in the cases of the Standard Live Stock Commission Co. and F. B. Lewis & Co., practically mean that a group of producers of live stock can not, through their own salaried employees, establish and operate at the Omaha stockyards a marketing agency through which they can sell or buy live stock for themselves on a cost basis without first depriving such agency of the privilege of membership in the exchange—

Mr. HUTCHINSON. What has this got to do with the exchanges?

Mr. BURNS. It merely draws the distinction between the physical functions of the two kinds of exchanges. The live-stock exchange has no future trading machinery connected with it, as does the grain exchanges. But it bears upon this proposition in that the live stock of the country is sold largely under the rules made by another self-set-up piece of machinery known as the Live-Stock Exchange.

I will not insist on reading this if there is objection.

The CHAIRMAN. There is no objection to your reading it.

Mr. BURNS (reading):

and, second, subjecting such agency to the boycott of the members of the exchange; in other words, without combating as best it can the obstructing influence of the collective bargaining power of the exchange and its membership.

It thus appears that the exchange intends to prevent any sales agency from operating in the stockyards which does not exact from its patrons, and retain, the full commission rate prescribed by the rules of the exchange for such service. It therefore seems that the exchange is inclined to exert its full collective influence to obstruct, hinder, and, if possible, to destroy any nonprofit, cooperative live-stock marketing agency which two or more producers may establish for the purpose of marketing their live stock upon a cost basis. The statement and summing up of the issue, as made by counsel for the exchange, is very clear and simple; it is, "a fundamental conflict between two methods of proposed methods" for marketing live stock at the terminals.

The department appreciates the splendid work done by the exchanges along the line of marketing development, and realizes the vast improvement made, as compared with the crude and chaotic conditions which at one time prevailed at terminal markets. It also realizes that these improvements are largely due to the disciplinary power which the exchanges have exerted over their members. The department understands that the exchanges must be left free to prescribe

reasonable qualifications for membership and to reject or accept such applicants as it sees fit; nevertheless, the department feels that the law which it is called upon to enforce confers upon it the power and imposes upon it the duty to keep the channels of the markets for live stock open, free, and competitive, and that the performance of this important duty makes it necessary to scrutinize closely the rules and conduct of the exchange and the effect which such rules and conduct have upon the marketing of live stock.

In my opinion the rule of the exchange which compels all of its members to refrain from having any business dealings with the Farmers' Union Live Stock Commission merely because that commission handles its owners' live stock upon a cost basis rather than a commission basis, and has returned and intends to return to its owners on a patronage basis any sum of money which it may have on hand at stated periods in excess of the actual cost of operating such agency, is unfair and unduly restrictive of competitive conditions. The evidence shows that the Farmers' Union Live Stock Commission, in order to dispose of off-grade and certain other cattle consigned to it for sale by its owner patrons, was forced to purchase its own consignments; in other words, to resort to a questionable and dangerous practice in order to avoid the obstructive effect of the restrictions imposed by the rules of the regulation of competition at the same time it frowhs upon organizations which unreasonably restrict or tend to destroy competition. The sweeping character of opposition which the Omaha Exchange has offered and proposes to offer to every attempt to try out at that great live stock terminal the cooperative methods of marketing, indicates pronounced monopolistic tendencies, and is unreasonably restrictive of desirable competitive conditions.

It is regrettable, but true, that a close study of all the rules of the Omaha Live Stock Exchange when collectively considered, indicates that they tend more and more to acquiring for the exchange and its membership a monopoly of the marketing of live stock at Omaha. This same regrettable tendency is discernible in the rules and conduct of other live-stock exchanges at the terminal markets. A mere statement of the restrictive tendencies of the rules discloses their monopolistic aim. One desiring to do a commission business in live stock at Omaha, and at the same time also avoid friction with the exchange and its membership, is now required to pay an initiation fee of $5,000 in order to become a member of the exchange. After becoming a member the exchange may without his consent dictate or raise or lower the commission rates which he shall charge; in other words, the compensation which he shall receive for service rendered rests entirely with the exchange. The member is forced to surrender to the collective discretion of the exchange his right to do or not to do business with a nonmember. The high cost of membership, together with the restrictions which the exchange lays upon the personal rights of the member as long as he is a member and the powerful influence and obstruction which the exchange through its membership may offer to nonmembers desiring to transact business on the Omaha stock yards, demonstrate the wisdom of the law in holding that the conduct and rules of the exchange are lawful only when it appears that they are reasonable and fairly related to the regulation of competition, and that whenever they are found to be unreasonable and destructive of desirable competitive conditions they are void.

It has been clearly shown that an important part of the buying power of the Omaha market already has subordinated itself through membership to the jurisdiction of the exchange, and it is obvious that if the packing interests should do likewise, no sales agency of a cooperative character could hope to operate successfully at the Omaha stock yards. When the exchange already has absorbed and controls such a high percentage of the buying power of the market it does not suffice for it to say that those who desire to market cooperatively their own live stock at Omaha or any manner other than that provided by the rules of the exchange are left free to build up their own buying machinery, and for that reason should not be heard to complain because the rules of the exchange forbids its buying members from buying live stock from such an agency. This contention is fully answered when it is remembered that the exchange has been left practically free by the legislature to devise, formulate, and apply equitable rules of practice to control the sale and distribution of other persons' property; that it has been permitted to do for the owners of live stock and the public generally what otherwise the State would have been compelled to do for them through the exercise of its police power. The exchange, substantially, is a public trustee, whose principal duty and function are to provide equitable rules for the sale and purchase of live stock in Omaha.

Your body should bear in mind that the complaining public was not put to the expense or necessity of building up parallel railroad, telegraph, and telephone lines, nor duplicating water and light plants.

Such public service facilities have long since been brought under the regulating and supervising influence of the State's police power. The thought seems to be spreading that the legislature, being more representative of the various interests involved and more disinterested by reason of absence of any direct pecuniary interest in the matter, is a more appropriate agency to provide rules of practice for handling live stock at the terminals than is the exchange. When it is remembered that live-stock producers and consumers have little, if any, voice in shaping the policy and rules of the exchange, it manifestly is the duty of the exchange to give the public interest generous consideration in determining and reaching conclusions which vitally affect it. It should be clearly understood that the membership of exchanges handle other peoples' live stock by grace rather than right and that any effort to monopolize this privilege on the part of the commission men is likely to arouse public resentment and resistance.

Mr. Chairman, just indulge me one moment. I want the record to show, if it is printed, that Secretary Meredith convinced me that he was deeply interested in and aggrieved by the charges or the criticisms which I laid before him; that Secretary Meredith was only recently in office, and very candidly stated to me that he would see what he could do, and that he was afraid that he could not do very much, because he realized that it would take him some time to get familiar with his new environment and the machinery of the department; and that, again, it was quite likely that he would only be in office a short time.

I want to say that Secretary Meredith did get in touch with high officials of the Federal Trade Commission, and I think once or twice—I know some of the officers of the Federal Trade Commission at his request came to his office, and he requested me to state to them the substance of the charges that I had stated to him. The Secretary was evidently, as you gentlemen know, embarrassed by the fact that under the law and under the President's proclamation, pursuant to which this investigation was begun and conducted, the department was ordered to cooperate with the Federal Trade Commission, and that neither the Federal Trade Commissioners or the Secretary of Agriculture was left in a position to act independently, and that anything that the Secretary might have done would have been encroaching upon the preserves of a coordinate body of the Government.

In justice to myself, I want to say that I have slept with these matters; I have grappled with them. I want to say that at one time I made up my mind I would ask for a transfer to get away from all of it. Many times before I took any active outside steps I made up my mind I would blot it out, and tried to forget it. But I failed to get the transfer; and, like Banquo's ghost, "it would not down."

I have deliberately, in the discharge of what I conceived to be a public duty, laid before this committee the facts which relate to the existence of records which are in the possession of those two departments which, in my opinion, if published or laid before Congress, would enlighten public sentiment and blaze the way to wholesale remedial legislation.

Whatever the consequences are, I am ready to take them. I thank you, gentlemen.

Mr. LYMAN. Mr. Chairman, you requested me before the hearing started to ask any questions that I wanted to, and there is one point that was brought up while you were out of the room which was not

plain to me and I doubt whether it is plain to the members of the committee. Mr. Burns was telling about the price card that was being sent out by Mr. Durant, and Congressman Young raised the question as to what difference it could make that this card was sent out carrying the prices for the different elevators, and that they followed that price, inasmuch as the prices for grain were published in the papers all over the country.

I want to ask Judge Burns whether those prices were the prices that had been paid the day the cards were sent out, and, if so, whether they were the prices in the open market at the terminals or whether they were the prices that were to be paid at some future date at some inland town, for instance. I do not think that was plain, Mr. Burns.

Mr. BURNS. Of course, the daily press carries what happened yesterday on the exchange, in a general way. Some of them carry elaborate figures. For instance, you can pick up your morning paper, if it happens to be a paper of any size, and you turn over to the market column, and you will see that wheat had a range—No. 1 wheat yesterday sold on the boards, we will say, opened, $2; high, $2.05; closed, $1.97. That gives you a pretty good idea of what happened on No. 1 wheat in Minneapolis yesterday. You will also find that cash wheat, No. 1, sold on the tables for so much; and maybe you will find sample grades sold for all sorts of prices—sometimes a range of 20 cents a bushel.

But that has very little bearing upon the proposition that I was trying to present, to wit, that these country dealers await this card and accept and adopt this card as the command from their employers that they shall pay the prices indicated thereon.

It is only fair to Mr. Durant to say that, as a general rule, prices he puts on there have some relation to the previous day's prices in Minneapolis. Sometimes the discount between yesterday's Minneapolis prices and the card prices are very close and sometimes very wide. But I feel that the record will show any jury of disinterested citizens who will take the pains to read it, that however much Congressmen may be astonished, as I was at that time, Mr. Durant, the publisher of the Grain Bulletin was the "autocrat" of the farm price of grain in the Minneapolis territory.

Mr. HUTCHINSON. Who made him the "autocrat"?

Mr. BURNS. Let us see if I can illustrate, Mr. Hutchinson.

Mr. HUTCHINSON. You say the people all believed him. Did they make him the "autocrat"?

Mr. BURNS. No, sir; they did not make him the autocrat. It was the big buyers of grain who made him the autocrat. Here are elevators A, B, C, and D. We will say they are big line elevators, whose principal business it is to put their branch houses all over the State of Minnesota for the purpose of buying grain at country points. For instance, if you go to one of those country points you will find A elevator sitting over there and B elevator sitting over there [illustrating], and that is all the competition there is at that place—two elevators.

Mr. HUTCHINSON. Do you mean that Durant put out prices which were not right—printed false prices, and the people believed them?

Mr. BURNS. I do not know whether you would call them false prices or not.

Mr. HUTCHINSON. But did the people keep on believing them? Would not they find out in any way, and would they still say he was the autocrat?

Mr. BURNS. Just follow me a minute and I will give you the picture of it.

We live at X, a little remote hamlet, we will say, out in Minnesota, and at X there is elevator A and elevator B alone which are buying grain. I live out here raising grain. I have been led to believe that elevator A and elevator B belonged to two different parties, and that there is no concerted action between them; that they are competitive. If I bring my grain into X to sell it, and I do sell it, and it afterwards develops that a man named Durant has sent elevator A a price card and elevator B a price card, and has sent them identically the same price, that is the only opportunity I have got to sell my grain, and I sell it to one of them.

Then if I can go one step back behind the scenes, and find that the owner of elevators A and B have previously instructed their managers to pay respectively for Burns' grain at X station just the price the card carries, I say that makes Mr. Durant the autocrat of the country price of my grain that day at that station.

Mr. MCLAUGHLIN of Nebraska. When you and the others associated with you sent out this card to get information as to whether these line elevator men and others were following Durant's prices, was there any protest came to you from the operators of these line elevators in Minneapolis as to the questionnaire you had sent out? Did any of them see you?

Mr. BURNS. As a side play, after they were mailed and gone, maybe 24, 36, or 48 hours, why, from time to time one of the owners of the line house would appear. I can see one now stepping in. I will not call his name. He is an elderly gentleman, and he held one of the questionnaires in his hand, and he said, "I see here that the Trade Commission or the Government—I see by this that the Government has evidently sent out a questionnaire to my country managers relating to the Grain Bulletin, asking certain information about its information, etc."

"Yes, sir."

He said, "I also see that the reply is requested or commanded for each station?"

"Yes, sir."

"Well, I came up to get a copy for each station, as our managers have been instructed to refer such matters to headquarters for reply."

We told him that the managers would reply; that the Government had instructed or commanded them to reply, and we did not have any duplicate copies, or something like that. To make a long story short, a great many had replied. I remember telling him that many of his managers had already replied. Several of them came 72 hours after the mailing of the thing.

But if you have got a hundred country managers buying grain for you [indicating one member of the committee], and you have a hundred country managers buying for you [indicating another member of the committee], and you instruct your hundred managers [indicating] to pay whatever the gentleman over here says on the card you shall pay, and you [indicating] instruct your hundred managers

to do likewise, and that becomes an established fact, to my mind it is just that much evidence, and I think overwhelming in character, that you and the other gentleman over there [indicating] have merely gotten together and agreed that while you yourselves would not fix prices between you, that you would instruct your subordinates to follow the prices fixed by the third man.

STATEMENT OF MR. CHESTER MORRILL, ASSISTANT TO THE CHIEF, BUREAU OF MARKETS, UNITED STATES, DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.

The CHAIRMAN. Mr. Morrill, the committee has under consideration future trading. We shall be pleased to hear from you and to have any suggestions that your department may have to offer.

Mr. MORRILL. The chairman of this committee and the chairman of the Senate Committee on Agriculture have asked the Secretary of Agriculture for an opinion on the House bill introduced by Mr. Haugen and on the Senate bill introduced by Mr. Gronna. That expression of opinion is being prepared, and I have no doubt will be in the hands of the respective chairmen very shortly.

In advance of the furnishing of that expression of opinion I can say that the Secretary of the Department of Agriculture considers that there is an important function that the future grain exchanges can and should perform. That function is such that it is of a great deal of importance to the people of the country, the producers of grain, the consumers of grain, and all those who are concerned with its handling that it should be performed in a thoroughly legitimate way, and that the purposes of the function should be accomplished.

The exchanges are affected with the public interest; they can not be considered as purely private interests in absolute and sole control of this business, and the public is entitled to know what are the facts.

The future exchanges, in so far as their functions are legitimate and proper, perform a service separate and apart from the cash grain markets, and that distinction is made in the report of the Federal Trade Commission, Volume V, on future trading operations in grain, which also contains a report on warehouses; and in that report the Federal Trade Commission makes this comment upon the hedging function [reading]:

> It should be noted that settlement and cancellation of future contracts prior to the time of delivery is essential to the serviceability of the most important of the business uses of the future contract; namely, "hedging." Affording an opportunity for hedging—which is a device to enable a merchant or manufacturer to avoid certain commercial risks—is the principal economic service of future trading.
>
> For example, an elevator company on buying 1,000 bushels of actual grain, sells a contract for a 1,000 bushels of futures against this cash purchase, expecting to buy in this quantity of futures at the time the actual grain is sold. Any marked change in market or other conditions will affect the prices of actual or cash grain and of contracts for the future delivery of grain substantially alike. If, therefore, the price of the actual grain purchases declines 10 cents between the time of its purchase and the time of its sale by the elevator company, the price of futures will presumably also have declined about 10 cents. As the elevator company when it bought the actual grain also sold a future contract, the company is thus enabled to buy in the same quantity of futures for 10 cents less than it paid for them, thus compensating itself for its 10-cent loss upon the actual grain and leaving it with only its ordinary merchandising margin. Similarly, only the merchandising margin of profits is left if prices go up, though the cash grain be sold for much more than the

ordinary excess above the price paid for it. The point of interest as regards hedging in the present connection is the fact that the hedger will not ordinarily deliver on his future sale. He will probably not wish to hold the grain long enough to reach the delivery month, and furthermore the grain is likely to be of such a quality that he can get a premium for it in the "sample market" that is not obtainable through delivery on the future. His future contract enables him to avoid speculative risks in price, but does not necessarily involve delivery.

It should be noted that a miller similarly hedges by buying futures against flour-sales contracts, and that the miller also seldom wishes to take delivery on his hedges, preferring to buy grain with reference to its adaptation to his particular needs and on the basis of the testing of samples.

That is all I will quote in reference to the hedging function of future exchanges, except that the commission goes on and says:

The point of chief economic interest in connection with the subject of deliveries is not the ratio of deliveries to transactions, which is, of course, small, but that delivery is contemplated as an eventuality and consequently has more or less effect on the production, price, and consumption of the commodity dealt in. These aspects will be considered in a later volume.

Then, again, they say that—

Quotations of futures are regarded by the trade as a facility of the utmost importance for the grain business as now conducted. The methods by which they are recorded and distributed are described in this volume.

Then, again, the commission says:

Considerable effort has been made by the commission to determine the quantity of future trading in grain in the United States. The general results are given here, but significant details will appear in another volume of this report. The quantity of future trading in grain varies considerably from year to year, but for some years has been above 20,000,000,000 bushels. About five-sixths of this trading is done on the Chicago Board of Trade.

It is the belief of the Secretary of Agriculture in the present condition of affairs with reference to future trading that the legitimate function with reference to hedging primarily, and with reference to affording a place where the meeting of minds of conflicting interests will result in quotations of prices for grain that may be used throughout the commercial world, is such that while the future exchanges should be allowed to continue to function for that purpose, there should be regulation of the future exchanges so that the people may be assured that that function is being properly performed.

If after Congress has provided regulation for the future exchanges, they still fail to perform that function, then would be time enough to consider what further action should be taken. So far, the grain future exchanges have not been regulated by Congress, and if the States have attempted to do any regulating it is not apparent in its results.

One of the important things that seems quite apparent from a reading of the report of the Federal Trade Commission, and from the general inquiries that are constantly made by people who are interested in this subject, is the fact that we lack definite authoritative information on some phases of future trading, and therefore any law which Congress passes should provide the means of getting exact information as to the volume of future trading and other facts connected with it, and for the publication of those facts.

The Federal Trade Commission has had quite a bit of difficulty in getting such information as it did, and some of that information is in rather a guesswork form in some respects.

I believe that the bills introduced by Messrs. Haugen and Gronna do provide quite definitely the power to get information and require that it be published.

The bill introduced by Mr. Haugen follows in many respects the cotton futures act. It goes further in certain respects than the cotton futures act. The cotton futures act, and therefore Mr. Haugen's bill, is based upon the theory that the contract which is used on the future exchanges for the purpose of providing a hedge, which the actual cotton trade or grain trade, as the case may be, deems necessary, and which contract lays the basis for the published quotations that are used throughout the trade, should be an absolutely fair contract; it should be a contract that as far as possible prevents manipulation and depression of values in so far as the terms of the contract are concerned. For example, under the cotton futures act the number of grades is limited, and the grades used are required to be those established by the Federal Government.

The classification of the cotton delivered on cotton-futures contracts must be made by Government employees so as to eliminate the possibility of irregular classification under the domination of special interests.

The differences that are used in the settlement for grades above or below the contract or basic grade must be commercial differences and not differences fixed by the committees of the exchanges.

Mr. HUTCHINSON. May I ask you, Are not all grains graded by Government employees?

Mr. MORRILL. At the present time wheat, corn, and oats are graded by inspectors licensed by the Secretary of Agriculture, who operate under the United States grain standards act, which is a law regulating the grading of grain for the purpose of interstate commerce. Those inspectors are not employees of the Department of Agriculture.

Mr. HUTCHINSON. They are appointed by the department, are they not?

Mr. MORRILL. They are licensed by the Secretary of Agriculture. In the case of a number of States, such as Illinois, Missouri, Kansas, Minnesota, and some others, the inspectors are State employees, operating under State authority, and the grain standards act requires that every inspector of grain who is authorized and employed by a State having a State grain-inspection department must be licensed by the Secretary of Agriculture. He has no control over the issuance of that license; he must license.

In the cases of States and localities where the inspectors are not State employees, then the Secretary of Agriculture determines their competency before issuing the licenses.

That applies to those three grains, because only those three grains have been standardized by the Federal Government. The Federal Government at the present time has no control whatsoever over the inspection and grading of other grains.

In case of dissatisfaction by an interested party with the determination of grade by a licensed inspector, an appeal may be taken to the Secretary of Agriculture if the grain involved in the transaction was sold, offered for sale, consigned for sale, shipped or delivered for shipment in interstate commerce, but could not take an appeal in purely intrastate transactions. The transactions on future exchanges are intrastate transactions.

Mr. HUTCHINSON. For instance, a man buys No. 2 corn at Chicago, and by the time it gets East it has spoiled and a dispute arises. Who settles that?

Mr. MORRILL. That depends upon the terms of the contract. If he bought it on Chicago grades and Chicago inspection, he is bound to receive it according to what it was graded in Chicago.

Mr. HUTCHINSON. Then he is bound to receive it?

Mr. MORRILL. If he made his contract that way.

Mr. HUTCHINSON. Even if the corn gets hot and spoils?

Mr. MORRILL. Certainly. The only remedy he would have would be in case there might have been a fraud committed on him or something of that kind. In other words, he makes the contract, not the law. He can make his contract either on the shipping point terms or destination terms or on basis of condition at some point en route, and according to his contract he takes it as it happens to be at the point designated in the contract. So far as the grain standards act is concerned, if that is an interstate shipment and he appeals from the inspection, he gets the determination of grade at the place of inspection, and can use that, provided his contract permits him to do so. The Government does not control the execution of the contract.

Mr. HUTCHINSON. Suppose I buy in Chicago No. 2 yellow corn delivered in Philadelphia. It passes as No. 2 in Chicago, but when it gets to Philadelphia it is hot.

Mr. MORRILL. In other words, your contract provides it shall be No. 2 at Philadelphia, bought on Philadelphia grades?

Mr. HUTCHINSON. No; I buy on Chicago.

Mr. MORRILL. In Chicago it grades No. 2 yellow, and is there any question in your mind that in that particular case there was No. 2 yellow at Chicago?

Mr. HUTCHINSON. I have the inspection.

Mr. MORRILL. You have the inspection showing No. 2 yellow, but when it arrives at Philadelphia it is hot?

Mr. HUTCHINSON. Yes.

Mr. MORRILL. In that case, unless there is some reason to question the grading at Chicago, I do not see what redress you would have.

Mr. HUTCHINSON. There is a certain period during which it is difficult to determine what corn will be in two or three weeks?

Mr. MORRILL. Yes, sir.

Mr. HUTCHINSON. I was asking how you would settle those disputes.

Mr. MORRILL. The Government does not settle those disputes; it simply, in case of disputes, determines the grade wherever the inspection was made.

In the case of inspections at Chicago by Illinois State inspectors, under the supervision of the Department of Agriculture, that is subject to the right of appeal——

The CHAIRMAN (interposing). I understood you to say future contracts were interstate commerce.

Mr. MORRILL. The contracts made on future trades are intrastate commerce. It has been so held by the Supreme Court of the United States. The Department of Agriculture, at the time the hearings were held on possible cotton futures legislation, was called upon to express an opinion on several bills that were then pending, and the opinion of the Department of Agriculture, signed by Secretary

Houston, of May 23, 1914, appears in the hearings on the regulation of cotton exchanges before the Committee on Agriculture of the House of Representatives of the Sixty-third Congress, second session.

In that opinion the Secretary of Agriculture took up one bill which was based on the commerce clause and the post office and post roads clause of the Constitution; another bill, which was also framed on those clauses; and another bill which was framed under the taxing power of Congress. The bill which was framed under the taxing power of Congress became the cotton futures act, in substance.

In connection with the bills which were framed under the interstate commerce clauses and the post office and post roads clauses. the Secretary discussed the law as well as the effectiveness of the bills.

The CHAIRMAN. I suggest you put it in the record.

(The data referred to by Mr. Morrill is here printed in full, as follows:)

DEPARTMENT OF AGRICULTURE,
Washington, April 23, 1914.

Hon. A. F. LEVER,
Chairman Committee on Agriculture,
House of Representatives.

DEAR MR. LEVER: In response to the request contained in your letter of the 6th instant, there is submitted herewith a report giving the views of this department on the constitutionality of three bills pending before your committee. designated as H. R. 8192, S. 110, and H. R. 15318, and on the comparaitve effectiveness of these bills to eliminate the abuses connected with dealings in cotton futures.

H. R. 8192.

SUMMARY OF PROVISIONS.

Section 1 defines certain terms used in the bill.

Section 2, as interpreted by section 1, makes it unlawful for any person, partnership, joint-stock company, society, association, or corporation, their managers and officers, to send, or cause to be sent, by telegraph, telephone, wireless telegraph, cable, or other means of communication from one State or Territory of the United States or the District of Columbia, to any other State or Territory of the United States or the District of Columbia, or to any foreign country, any communication either offering to make or enter into a contract for the purchase or sale for future delivery of cotton without intending that such cotton shall be actually delivered or received, or offering to make or enter into a contract whereby any party thereto, or any party for whom or in whose behalf such contract is made, acquires the right or privilege to demand in the future the acceptance or delivery of cotton without being thereby obligated to accept or to deliver such cotton. Penalties are attached for violation of this provision.

Section 3 requires the person sending the message to furnish to the person transmitting the same an affidavit regarding the sender's intention as to actual delivery or acceptance of the cotton. Penalties are attached for knowingly making a false statement in any such affidavit. It is also provided that proof of failure to make such affidavit shall be prima facie evidence that the message related to a contract prohibited by section 2, and that proof of failure to deliver or receive the cotton called for under the contract shall be prima facie evidence that there was no intention to deliver or receive such cotton when the contract was made.

Section 4 authorizes agents of telegraph, telephone, wireless telegraph, and cable companies to administer oaths required by the bill.

Section 5 prohibits any owner or operator of any telegraph or telephone line, wireless telegraph, cable, or other means of communication, and any officer, agent, or employee of such owner or operator from knowingly transmitting or allowing to be transmitted any message relating to the contracts described in section 2, and penalizes such offenses.

Section 6 declares certain printed and written matter tending to induce or promote the making of contracts described in section 2 to be nonmailable and prohibits, under penalty, anyone from knowingly mailing any such matter.

Section 7 authorizes the Postmaster General to instruct postmasters in post offices at which any mail matter declared by section 6 to be nonmailable is received to return the same to the sender.

Section 8 grants immunity from prosecution to any person called upon to testify regarding violations of the act.

CONSTITUTIONALITY.

This bill is framed under the commerce clause and the post-office and post-roads clause (Art. I, sec. 8) of the Constitution.

The principal section prohibits the sending from one State or Territory or the District of Columbia to another State or Territory or the District of Columbia or to a foreign country of certain classes of communications by telegraph or telephone. The classes of communications affected are: (1) Offers to enter into contracts for the purchase or sale of cotton for future delivery without intending that it shall be actually received or delivered; and (2) offers to enter into contracts whereby any party thereto, or any party for whom or in whose behalf such contracts are made, acquires the right or privilege to demand in the future the acceptance or delivery of cotton without being thereby obligated to deliver or to accept the same.

The first class involves those future contracts respecting which the parties do not intend that the article shall be delivered, but usually intend, instead, that the transaction shall be settled by paying he difference beween the contract and the market price. The second class comprises options to buy or sell at a future date. Both are essentially gambling transactions and are void as against public policy. (Clews *v.* Jamieson, 182 U. S., 461; White *v.* Barber, 123 U. S., 392.)

Thus, what is prohibited by section 2 of the bill is the sending by telegraph or telephone from one State or Territory or the District of Columbia to another State or Territory or the District of Columbia or to a foreign country of proposals to enter into gambling transactions. The question is whether Congress has authority to enact this prohibition.

Intercourse by telegraph or telephone between one State, Territory, or District of the United States and another State, Territory, or District of the United States or a foreign country is interstate or foreign commerce and is, therefore, subject to regulation by Congress under the commerce clause of the Constitution. (Pensacola Telegraph Co. *v.* Western Union Telegraph Co., 96 U. S., 1; Telegraph Co. *v.* Texas, 105 U. S., 460; Western Union Telegraph Co. *v.* Pendleton, 122 U. S., 347; Muskogee National Telephone Co. *v.* Hall, 118 Fed., 382.)

It has been held to be within the power of Congress, under the commerce clause, to prohibit the interstate shipment or transportation of articles deemed injurious to the morals or health of the people, such as lottery tickets, remedies for the prevention of conception, adulterated foods and drugs, etc. (Lottery Case, 188 U. S., 321; United States *v.* Popper, 98 Fed., 423; Hipolite Egg Co. *v.* United States, 220 U. S., 45; Shawnee Milling Co. *v.* Temple, 179 Fed., 517; see also Hoke *v.* United States, 227 U. S., 308, and Wilson *v.* United States, 232 U. S., 563.) Likewise, it would seem to be within the power of Congress to prohibit the sending or transmission from one State to another by telegraph or telephone of messages which are injurious to the morals of the people, because in furtherance of gambling contracts. The analogy here drawn was indicated in Telegraph Co. *v.* Texas (105 U. S., 464), wherein the court said that—

"A telegraph company occupies the same relation to commerce as a carrier of messages that a railroad company does as a carrier of goods."

Under the bill as drawn the prohibition in section 2 extends to the sending of messages by telegraph, telephone, wireless telegraph, cable, and other means of communication. It is not clear just what the phrase "other means of communication" would include. Under the rule of ejusdem generis it would probably be construed as confined to any possible agencies of communication other than those specifically mentioned, which are based on or which apply the scientific principles of the telegraph and telephone. But if the phrase be held to include such means of communication as railroads and boats, which

carry corporeal objects, instead of intangible messages, there is at least a doubt as to the validity of the proposed legislation when applied to such other means of communication. This doubt arises primarily out of certain statements of the United States Supreme Court in Paul *v.* Virginia (8 Wall., 168) and cases following it.

It is firmly established that contracts of insurance are not transactions of interstate commerce, which are subject to regulation by Congress under the commerce clause of the Constitution. (Paul *v.* Virginia, 8 Wall., 168; Hooper *v.* California, 155 U. S., 648; New York Life Insurance Co. *v.* Cravens, 178 U. S., 389.) Likewise, contracts for the sale of an article for future delivery are not, in themselves, transactions of interstate commerce if they do not oblige the transportation of anything from one State, Territory, or District to another State, Territory, or District of the United States. (Ware & Leland *v.* Mobile County, 209 U. S., 405.) However, in Paul *v.* Virginia (8 Wall., 183), the court, in the course of its opinion, goes further than to hold that the contracts involved were not in themselves transactions of interstate commerce, and says:

"These contracts are not articles of commerce in any proper meaning of the word. They are not subjects of trade and barter offered in the market as something having an existence and value independent of the parties to them. They are not commodities to be shipped or forwarded from one State to another and then put up for sale."

Because of what has been held in the cases referred to, and particularly because of what was said in the extract just quoted, there is some doubt as to whether the Supreme Court would hold that, under the commerce clause, Congress is empowered to regulate the physical transportation of a written or printed contract or offer to make such contract, which is not itself the subject of interstate commerce.

On the other hand, if the holdings that the interstate transportation of lottery tickets and of instruction by correspondence, and the interstate transmission of messages by telegraph and telephone are subject to regulation by Congress (Lottery case, supra; Int. Text Book Co. *v.* Pigg, 217 U. S., 01), are adhered to, on principle it is not perceived why written or printed contracts or offers to make contracts transported interstate must not also be held to be subjects of interstate commerce.

The provisions in section 3 of the bill making proof of failure to make the affidavit required thereby prima facie evidence that the message related to a contract prohibited by section 2, and making proof of failure to deliver or receive the cotton called for in the contract prima facie evidence that there was no intention to deliver or receive such cotton when the contract was made, seem to be authorized and not to infringe any constitutional right. (Mobile, etc., Co. *v.* Turnipseed, 219 U. S., 35; Adams *v.* New York, 192 U. S., 585.)

Section 6 of the bill relating to the use of the mails appears to be valid under the authorities cited and discussed in connection with S. 110.

The provisions of section 7, giving the Postmaster General power to cause the return to the sender of certain mail matter, seem to be authorized in view of the decision in Public Clearing House *v.* Coyne. (194 U. S., 497.)

EFFECTIVENESS.

It is commonly recognized that there are certain evil features arising out of future dealings on cotton exchanges as at present conducted. In order to correct the evils it is necessary, in some manner, to regulate these transactions. The fundamental test of the effectiveness of a bill designed to correct such evils is its ability to reach the class of transactions which require to be regulated.

As pointed out above, the bill in question touches only two classes of transactions: First, cases in which the parties do not intend that any cotton shall be delivered or received under their contracts; second, options to sell or buy, commonly known as "puts" and "calls." Both are, in their nature, gambling contracts. They are almost universally illegal under the laws of the various States.

The future transactions usually conducted on cotton exchanges do not, at least on their faces, belong to either of the classes described in the bill, but are prima facie lawful contracts. Generally, such transactions are definite agreements on the part of one party to deliver to another party, who, in turn, agrees to receive a certain quantity of cotton within a fixed period of time at a fixed price. The obligations to deliver and receive the cotton are legally binding.

It is doubtless true that a large portion of these dealings are undertaken by persons who have no direct interest in either the production or the distribution of cotton. Doubtless, also, a large proportion of the buyers of these future contracts do not desire the delivery of actual cotton, and a large proportion of the sellers do not contemplate making physical delivery. Such a buyer, instead of receiving the actual cotton, sells out the contract before it has matured to another party, and merely gains or loses the difference between its cost and its selling price. In this way the contract may be sold or assigned many times before it reaches maturity. However, at the stated time of delivery, the ultimate purchaser is obligated to receive actual cotton. In practice, such delivery is usually made by means of so-called "set-offs" or "ring" settlements, which the Supreme Court has expressly declared to be legally effective for the purpose. (Board of Trade *v.* Christie Grain & Stock Co., 198 U. S., 236.)

In order to bring one of these cotton-future contracts within the first class of transactions described in the bill, it would be necessary to show, by evidence outside the contract, that a party thereto did not intend that any cotton should be delivered thereunder. However, in view of the binding obligations on the parties to deliver and receive actual cotton, under the usual future contract entered into on cotton exchanges, and of the fact that cotton is eventually delivered to the ultimate purchaser, it would seem, in such cases, to be practically impossible to show conclusively an original intention of either of the parties not to deliver or receive actual cotton.

The usual future contracts entered into on cotton exchanges are so dissimilar in their nature to "puts" and "calls" that they could in no sense be brought within the second class of transactions described in the bill.

In certain instances, there may be carried on transactions of one of the classes described in the bill, which would be reached by it if one of the parties conducted his negotiations by interstate telegraph or telephonse service. But the bill would, in general, be ineffective, since it fails to reach the future transactions on exchanges that give rise to the recognized evils which it is desired to correct.

It is believed that certain forms of dealings in cotton for future delivery, commonly called "hedges," if properly conducted, serve an important and useful economic function. For instance, "hedges" obviate the necessity of speculation by spinners as to the price of cotton needed by them to fulfill contracts of sale of goods to be manufactured from cotton running over long periods. It is unquestionably true that certain ills have crept into the system of conducting transactions in cotton futures, which, as more fully pointed out in the discussion of H. R. 15318, injuriously affect the public interest. But it is these ills which it is desired to destroy; it is not essential or desirable completely to destroy the business of dealing in futures.

S. 110.

SUMMARY OF PROVISIONS.

Section 1 of the bill prohibits any person, firm, joint-stock company, society, association, or corporation, their managers or officers, who are members of any exchange, society, corporation, or association, in which or through which any contracts for the future delivery of cotton are made, from sending through the United States mail any letter, document, pamphlet, or other matter in the promotion or furtherance of the making or enforcing of such contracts, unless such exchange, society, corporation, or association shall require all such contracts to comply with certain specified conditions. The chief conditions specified are the insertion of provisions in the contract requiring the cotton dealt with therein to be within certain grade limits established by the Secretary of Agriculture, and provisions governing the settlement of differences in case cotton other than the basis grade is delivered.

Section 2 makes it the duty of the Secretary of Agriculture to standardize separately the grades of upland and gulf cotton.

Section 3 provides that in case of long staple cotton, the length of staple shall be designated in the contract and the cotton shalll be, when delivered, of the grade and length of staple designated.

Section 4 prohibits any person or corporation from sending through the mails or over the telegraph wires any price lists of sales of cotton in any cotton exchange engaged in selling futures which does not use a contract for future delivery of cotton in accordance with the provisions of the bill.

Section 5 grants immunity from prosecution to persons called upon to testify regarding violations of the act.

Section 6 prescribes penalties for certain violations of the act.

CONSTITUTIONALITY.

The bill is framed primarily under the post office and post roads clause of the Constitution, and altogether so except a part of section 4, which is based on the commerce clause.

The principal section of the bill prohibits members of exchanges in which or through which contracts for future delivery of cotton are made from sending through the United States mail any mail matter in promotion or furtherance of the making or enforcement of such contracts, unless such exchange requires the contracts to comply with certain conditions. The bill takes cognizance of the fact that there are certain evil features arising out of future dealings on cotton exchanges as at present conducted. It appears to be framed on the theory that if the contracts comply with the conditions specified in the bill, the evil features will be eliminated; but that if such conditions are not complied with, these evil features are likely to be retained. The first question to consider, therefore, is whether Congress has the right to exclude from the mails printed or written matter promotive of a class of dealings which it deems may be injurious to the public welfare.

The power of Congress to exclude from the mails all matter concerning lotteries and fraudulent schemes has been sustained by the United States Supreme Court. (Ex parte Jackson, 96 U. S., 727; In re Rapier, 143 U. S., 110; Horner *v.* U. S., 143 U. S., 571.)

In Hoover *v.* McChesney (81 Fed., 472, 480) it is stated that what the Supreme Court has sustained in these cases is the exercise of a so-called police power of excluding from the mails that which may be declared immoral or injurious to the morals of the people of the several States. However, it does not appear that Congress, in the exercise of its power over the Postal Service, is limited to the exclusion of matter deemed immoral or injurious to the morals of the people. Its power rests on broader ground.

In Ex parte Jackson, supra, the court says:

"The power possessed by Congress embraces the regulation of the entire postal system of the country. The right to designate what shall be carried necessarily involves the right to determine what shall be excluded."

In Public Clearing House *v.* Coyne (194 U. S., 497, 506) the court states:

"The legislative body in thus establishing a postal service may annex such conditions to it as it chooses."

* * * * * * * *

"In establishing such a system Congress may restrict its use to letters and deny it to periodicals; it may include periodicals, and exclude books; it may admit books to the mails and refuse to admit merchandise, or it may include all of these and fail to embrace within its regulation telegrams or large parcels of merchandise, although in most civilized countries of Europe these are also made a part of the postal service. It may also refuse to include in its mails such printed matter or merchandise as may seem objectionable to it upon the ground of public policy, as dangerous to its employees or injurious to other mail matter carried in the same packages. The postal regulations of this country, issued in pursuance of act of Congress, contain a long list of prohibited articles dangerous in their nature, or to other articles with which they may come in contact, such, for instance, as liquids, poisons, explosives and inflammable articles, fatty substances, or live or dead animals, and substances which exhale a bad odor. It has never been supposed that the exclusion of these articles denied to their owners any of their constitutional rights."

Within the extent of this broad power, it rests with Congress to determine, in its discretion, how such power shall be exercised. (In re Rapier, 143 U. S., 134.)

It is believed, therefore, that if Congress deems a certain class of contracts or dealings injurious to the public welfare, it is authorized, whether in the exercise of its so-called police power over the Postal Service or of its broader powers as recognized by courts, to exclude from the mails any matter which tends to promote the making or enforcement of such contracts or dealings, unless they meet certain requirements calculated to eliminate the injurious features.

The next question is whether it is within the authority of Congress to deny the use of the mails for the transmission of such matter to members of exchanges, without denying their use for the same purposes to other persons or classes of citizens.

In Hoover *v.* McChesney (81 Fed., 472, 480) it is stated:

"We think the right to the use of the mails * * * would be equally a property right, and one which could not be taken away except by due process of law."

In Missouri Drug Co. *v.* Wyman (129 Fed., 623) and People's U. S. Bank *v.* Gilson (140 Fed., 1) such right to use the mails is referred to as a "privilege," instead of a "property right."

It is doubtful whether Congress could, arbitrarily and without any reasonable basis, deny the use of the mails for any purpose to one portion of the citizens of this country and allow its use for the same purpose to the remainder of the citizens. Such an enactment might constitute class legislation, in violation of the due process clause of the fifth amendment to the Constitution. This precise question, however, does not seem to have been passed upon by the courts.

In Public Clearing House *v.* Coyne, supra, the court upheld the constitutionality of a statute which authorized the Postmaster General to seize and return to the sender all letters addressed to a particular person, firm, or corporation which he was satisfied was using the mails for fraudulent purposes. In discussing the question, the court said:

"While it may be assumed, for the purpose of this case, that Congress would have no right to extend to one the benefit of its postal service and deny it to another person in the same class and standing in the same relation to the Government, it does not follow that under its power to classify mailable matter, applying different rates of postage to different articles and prohibiting some altogether, it may not also classify the recipients of such matter and forbid the delivery of letters to such persons or corporations as in its judgment are making use of the mails for the purpose of fraud or deception or the dissemination among its citizens of information of a character calculated to debauch the public morality."

In Lewis Publishing Co. *v.* Morgan (229 U. S., 288, 300, 313, 316) it is said:

"Broadly stated, all the contentions of the Government are reducible to the following: * * * (*c*) That even if these propositions be not well founded and the provision be given the significance attributed to it by the publishers, nevertheless it is valid as an exertion by Congress of its power to establish post offices and post roads, a power which conveys an absolute right of legislative selection as to what shall be carried in the mails and which, therefore, is not in any wise subject to judicial control, even although in a given case it may be manifest that a particular exclusion is but arbitrary because resting on no discernible distinction nor coming within any discoverable principle of justice or public policy. * * *

"That Congress, in exerting its power concerning the mails, has the comprehensive right to classify which it has exerted from the beginning, and therefore may exercise its discretion for the purpose of furthering the public welfare as it understands it, we think it too clear for anything but statement; the exertion of the power, of course, at all times and under all conditions, being subject to the express or necessarily implied limitations of the Constitution. * * *

"Finally, because there is developed no necessity of passing upon the question, we do not wish, even by the remotest implication, to be regarded as assenting to the broad contentions concerning the existence of arbitrary power through the classification of the mails, or by way of condition embodied in the proposition of the Government which we have previously stated."

Further, in Warren *v.* United States (183 Fed. 718, 720) the court states:

"The unrestricted use of the mails is not one of the fundamental rights guaranteed by the Constitution. * * * Its (Congress's) power over the particular subject is almost without limit, except as respects unreasonable searches and seizures and the duty to treat all alike under the same circumstances and conditions."

In exercising powers other than its power over the Postal Service Congress has seen fit to discriminate with respect to classes of citizens. These discriminations, if not purely arbitrary, but based upon reasonable grounds, have been upheld by the courts as against the claim that the constitutional rights of citizens with respect to their liberty and property were being invaded. There are many instances of this nature, the chief ones being cases in which the

United States or a State has taxed certain classes of citizens without similarly taxing other classes. (Flint *v.* Stone Tracy Co., 220 U. S., 107; Bell's Gap R. R. Co. *v.* Pennsylvania, 134 U. S., 232; Citizens' Telephone Co. *v.* Fuller, 229 U. S., 322.)

It will be noted that in the Coyne case there was a discrimination made by the statute, as to the recipients of mail matter, in denying its receipt to a certain class without denying it to other classes. This was upheld as a reasonable discrimination under the circumstances, calculated to exclude certain fraudulent matter from the mails. It may be also that a provision prohibiting a certain class of persons from sending specified matter in the mails would likewise be upheld if the discrimination be reasonable and suited to the circumstances of the situation.

The contracts which give rise to the evil features against which the bill in question is aimed are in general carried on and regulated by members of the exchanges. The members of these exchanges occupy a peculiar and distinct position with respect to the making of these contracts. It may be that, in order to exclude from the mails matter relating to such contracts, it is only necessary to prohibit these members from using the mails for such purpose, unless they conform their contracts to certain requirements calculated to eliminate the objectionable features. Although somewhat questionable, it is possible that the provision would be sustained by the Supreme Court.

Section 4 of the bill prohibits any person from using the mails or telegraph lines for sending price lists of sales of cotton in any cotton exchange engaged in selling futures which does not use a contract in accordance with the provisions of the bill.

As applied to the use of the mails, this provision seems to be valid for the reasons set forth above.

However, with respect to the use of the telegraph, the provision in section 4 seems to be invalid in so far as it applies to purely intrastate messages over lines not owned by or operated as agencies or under authority of the Federal Government.

As applied to interstate messages, there is some doubt as to the validity of this telegraph provision, but it might be sustained as a valid regulation of interstate commerce for the reasons set forth in the preceding discussion of H. R. 8192.

H. R. 8192 deals only with the exclusion from interstate telegraph and telephone service of messages relating to purely gambling transactions. The provision here in question goes further than those regulations of commerce, in the form of specified prohibitions, which have been upheld by the courts, such as the transportation of lottery tickets, of remedies for the prevention of conception and of adulterated or misbranded foods and drugs, which are in themselves hurtful to the morals or health of the people. The price lists affected and the transactions on which they are based are not in themselves necessarily illegal, and possibly are not injurious to the public morals. There is ground for contending, however, that inasmuch as these lists, based on transactions failing to comply with the conditions specified in the bill, do not correctly represent the values which they assume to represent, their circulation as such among the people who rely upon them is injurious to the public welfare, and possibly, in a sense, to the public morals.

The power of Congress over interstate commerce is—

"plenary, complete in itself, and may be exerted by Congress to its utmost extent, subject only to such limitations as the Constitution imposes upon the exercise of the powers granted by it, and that in determining the character of the regulations to be adopted Congress has a large discretion which is not to be controlled by the courts, simply because, in their opinion, such regulations may not be the best or most effective that could be employed." (Lottery case, 188 U. S., 353.)

If Congress in the exercise of its discretion declares in effect upon apparently reasonable grounds that the circulation of certain matter is injurious to the public welfare, or possibly to the public morals, and prohibits its transportation through an agency of interstate commerce, it would seem that the courts would uphold such provision as a valid regulation of interstate commerce.

Section 5 of the bill proposes to grant to persons required to testify regarding violations of the act immunity only from prosecution for the particular offense in connection with the prosecution whereof such testimony is given. It may sometimes be the case that the testimony of a witness, although directly bearing upon the alleged offense in issue, would indirectly relate to some other offense

in which he has been implicated. By being compelled to testify in such matter he might be forced to disclose evidence leading to his prosecution for an offense as to which no immunity is granted him. The immunity granted in section 5 not appearing to be as broad as the constitutional protection afforded to witnesses in criminal cases, it is doubtful whether this provision would be upheld by the courts. (Counselman *v.* Hitchcock, 142 U. S., 585.)

EFFECTIVENESS.

This bill appears to be framed on the same economic theory as H. R. 15318. The object of both bills is not to destroy dealings in cotton futures but merely to eliminate the evil features connected with them. The methods only of accomplishing this object are different.

The plan of S. 110 is to deny to members of exchanges, on or through which cotton future contracts are made, the use of the mails for sending any matter which promotes or furthers the making or enforcement of such contracts, unless they are made to conform to certain conditions calculated to eliminate the evil features of future dealings. The use of the mails and the telegraph is also denied for sending price lists of sales on any cotton exchange which does not use a contract in accordance with the provisions of the bill.

The class of transactions which the bill describes and attempts to regulate is the class which gives rise to the evil features that should be eliminated from the dealings in cotton futures. If the bill could reach all of these transactions its effectiveness to regulate them would be complete, leaving for consideration only the details of the regulative provisions. However, it appears that the bill would necessarily reach such transactions only when members of the exchange found it necessary to use the mails in making or enforcing the contracts or if the members found the use of the mails or telegraph to circulate their price lists indispensable in the conduct of their business.

Many future transactions are entered into on cotton exchanges, and are consummated without the necessity of resorting to the use of the mails. Plainly these would not be reached by the bill. It may be that the denial of the privilege of the mails and telegraph, in the respects provided for by the bill, would so inconvenience the exchanges that they would comply with the requirements of the bill in order to escape its prohibitions. However, if the advantages of continuing under their present system would outweigh the inconvenience which the exchanges might suffer by not meeting the requirements of the bill it is reasonable to predict that they would not subject themselves to its provisions.

Aside from those cases in which future dealings may be conducted on cotton exchanges without resort to the use of the mails, opportunities would be afforded by the bill as it stands for evasion of its requirements for the following reasons:

(*a*) It does not prohibit persons, other than exchange members, from sending orders by mail for the purchase or sale of future contracts not conforming to the provisions of the bill.

(*b*) It does not prevent either members of exchanges or other persons from sending communications respecting the making or enforcement of such contracts by express, telegraph, or telephone.

(*c*) Section 4 deals exclusively with price lists of sales on exchanges. The provision prohibiting the sending of these by telegraph, in case of exchanges not using a contract in accordance with the requirements of the bill, is unconstitutional, as applied to intrastate telegraph service. Furthermore, no penalty is provided for violating it.

(*d*) The bill does not prohibit the sending of such price lists by express.

The conditions imposed on future contracts by S. 110 are similar to those specified in H. R. 15318. A discussion of the conditions that should be attached to such contracts is entered into in connection with the consideration of the latter bill.

It may be remarked in this connection that, in the view of this department, no legislation based solely on the commerce clause of the Constitution, or on the power of Congress over the Postal Service, or on both, would be completely effective to correct existing evils arising out of dealings in cotton futures.

It may happen that cotton eventually tendered or delivered under a contract of sale for future delivery is at some time the subject of interstate commerce. However, the contracts of this description, which are commonly entered into on exchanges, do not necessarily contemplate or oblige the transportation of cotton from one State to another. As a rule the transportation of the cotton

(if such occur) is independent of, or at least only incidental to, the performance of the contract entered into on the exchange. Such transactions, therefore, are not transactions of interstate commerce, which are subject to regulation by Congress under the commerce clause. (Ware & Leland *v.* Mobile Co., 209 U. S., 405; Brodnax *v.* Missouri, 219 U. S., 285.)

If some agency of interstate commerce or the Postal Service is used in connection with the making or enforcement of a future contract, Congress might, with respect to the use of such agency or the mails, exercise its regulative power and thereby indirectly accomplish the regulation of the contract. It can not, however, regulate the contract as such or otherwise than by the indirect effect of its regulation of the interstate shipment or transportation of matter relating to such contract or of its transmission through the mails. Whether or not the indirect regulation of these contracts, in the limited class of cases in which it may be accomplished, would result in inducing the parties to conform them in all cases to the requirements sought to be imposed is problematical, depending on the comparative advantages and disadvantages accruing to the individuals concerned of adopting the one course or the other.

H. R. 15318.

SUMMARY OF PROVISIONS.

Section 1 prescribes the short title of the act.

Section 2 defines certain terms used in the bill.

Section 3 levies upon each contract of sale (including agreements of sale, agreements to sell, and sales) of any cotton for future delivery made at, on, or in any exchange, board of trade, or similar institution or place of business a tax in the nature of an excise of one-tenth of 1 cent for each pound of the cotton involved in any such contract. It provides also for a levy of the tax on such contracts made on foreign exchanges, etc., in cases in which the order for such sale has been transmitted from the United States to such foreign country, and either the buyer or the seller is at the time of the execution of the contract a resident of the United States.

Section 4 requires such contracts of sale to be in writing, plainly stating or evidenced by written memorandum showing certain essential facts regarding the contract.

Section 5 provides for a reduction of the tax to 25 cents for each 100 bales of cotton of 500 pounds each and at that rate for greater or less quantities of cotton if the contract comply with certain specified conditions. The conditions are that it must—

(1) Conform to the requirements of section 4 and the rules and regulations made pursuant to the act.

(2) Specify the basis grade which shall be one of the grades established by the Secretary of Agriculture, the contract price per pound of cotton of such grade, the date of the purchase or sale, and the time of fulfillment or settlement of the contract.

(3) Provide that cotton dealt with under the contract shall be of or within the grades for which standards are established by the Secretary of Agriculture, and no other grade or grades.

(4) Provide for the settlement of differences above or below the contract price in case cotton other than the basis grade is tendered or delivered according to the provisions of the act.

(5) Provide that certain classes of cotton shall not be delivered.

(6) Provide for the tender of the full number of bales involved in the contract and for five days' notice to the receiver of delivery.

Section 6 contains provisions for the settlement of differences in case cotton other than the basis grade is delivered.

Section 7 prescribes what shall be considered bona fide spot markets within the meaning of the act.

Section 8 prescribes certain rules by which the Secretary of Agriculture is to be governed in designating bona fide spot markets.

Section 9 provides for the payment of the tax by the seller by means of stamps affixed to the contract of sale or to the memorandum evidencing the same.

Section 10 declares the contracts dealt with in the act to be unenforceable in the courts of the United States unless they comply with the requirements of sections 4 and 9.

Section 11 authorizes the Secretary of the Treasury to make rules and regulations and appoint agents to collect the tax imposed.

Section 12 prescribes penalties for evading or attempting to evade the payment of the tax or otherwise violating the provisions of the act or the rules and regulations made thereunder.

Section 13 imposes an additional penalty, to be recovered in a civil action, on account of violation of the act; one-half of the amount recovered to be paid to the informer.

Section 14 grants immunity from prosecution to certain persons called to testify concerning violations of the act.

Section 15 provides that the payment of any tax levied by the act shall not exempt the person paying the same from any penalty or punishment under State law nor prevent States from imposing taxes on the same transaction.

Sections 16 and 17 make appropriations to enable the Secretaries of the Treasury and of Agriculture to carry out the provisions of the act.

Section 18 prescribes when the provisions of the act shall go into effect.

CONSTITUTIONALITY.

The bill is based exclusively on the tax clause (Art. I, sec. 8) of the Constitution. It proposes to tax the privilege afforded by exchanges, boards of trade, and similar places of dealing in contracts for the sale of cotton for future delivery. It takes note of the fact that there are certain evil features arising out of dealing in cotton futures on exchanges and boards of trade as at present conducted. For the purposes of taxation a distinction is drawn between those future contracts which comply with certain conditions calculated to eliminate these evil features and those contracts not complying with such conditions which would be likely to retain the evil features. A super tax is laid on the latter class of contracts and a reduced tax on the former. The question is whether this scheme of legislation would be upheld by the courts.

A tax on the privilege of dealing on exchanges and boards of trade is an excise within the meaning of the Constitution of the United States. (Nicol *v.* Ames, 173 U. S., 509.) As such it is stated to be subject to only two limitations, namely, it must be levied for the public welfare and must be uniform throughout the United States. (Flint *v.* Stone Tracy Co., 220 U. S., 107, 153.) These limitations scarcely require any discussion in this connection. There can be no reasonable claim that the proposed tax is not for the public welfare, and the constitutional provision for uniformity, which means geographical uniformity solely (Knowlton *v.* Moore, 178 U. S., 41), is in no sense infringed.

However, there seems to be a limitation on the taxing power of Congress with respect to its classification of the different objects of taxation, but this power of classification is very broad. As stated in Flint *v.* Stone Tracy Co. (220 U. S., 158):

"In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation; to select one calling and omit another; to tax one class of property and to forbear to tax another."

The limitation is well defined in Nicol *v.* Ames (173 U. S., 521), as follows:

"The question always is, when a classification is made, whether there is any reasonable ground for it or whether it is only and simply arbitrary, based upon no real distinction, and entirely unnatural."

A tax on the privilege of selling commodities on exchanges and boards of trade, without taxing the sales of the same commodities made elsewhere, was sustained in Nicol *v.* Ames, nor is it necessary to tax this privilege for all classes of sales made on exchanges or boards of trade. As stated in that case (p. 523):

"Nor is it necessary to tax the use of the privilege under all circumstances in order to render the tax valid upon its use in particular cases. We see no reason why it should be necessary to tax a privilege whenever it is used for any purpose or else not to tax it at all. It is not in its nature indivisible. A tax upon the privilege when used for one purpose does not require for its validity that the same privilege should also be taxed when used for another and a totally distinct purpose. It may be the same privilege, but when it is used in different cases to accomplish sales of wholly different things between which there is no relation whatever, one use may be taxed and the other not, and no rule of uniformity will thereby be violated."

Upon these grounds a tax on the privilege afforded by exchanges and boards of trade of dealing in contracts for the sale of cotton for future delivery would

be valid, without taxing such contracts of sale when made elsewhere, and without taxing spot sales of cotton or sales of other commodities. Cotton is so different from other commodities and future contracts are so different from spot sales that the distinction drawn between them by the bill can not be said to be arbitrary or unreasonable, but is, in fact, natural and reasonable.

The only phase of the question remaining is whether it is valid to divide future contracts into two classes and apply a different rate of taxation to each class. The question here again is whether there is any reasonable ground for the classification or whether it is merely arbitrary, based upon no real distinction, and unnatural. The fact is that the distinction has a real basis, as pointed out above. The line is drawn between a class of future contracts, comprising those complying with the conditions specified, that serve a useful function in legitimate trade and other class, comprising those contracts not complying with the conditions specified, which injure the public interest.

In the case of McCray *v.* United States (195 U. S., 27) the validity of a similar statute was upheld by the Supreme Court. The act there considered imposed a tax of 10 cents a pound on artifically colored oleomargarine and only one-fourth of a cent a pound on uncolored oleomargarine. There was not necessarily any difference in kind in the two classes of oleomargarine taxed. The only difference was that one was colored so that it resembled butter, whereas the other was not colored. The distinction drawn by H. R. 15318 between the two classes of future contracts is at least as reasonable as that involved in the McCray case and would doubtless be upheld on the same grounds by the Supreme Court.

With respect to the supertax on the artificially colored oleomargarine, it was held in the McCray case that the motive of Congress in laying the tax could not be inquired into by the courts, notwithstanding that it might result in totally destroying the business of manufacturing artifically colored oleomargarine.

It may be noted that discriminations in taxing statutes of the States have been upheld by the Supreme Court of the United States if the classifications were not arbitrary or unreasonable, notwithstanding that there is in the fourteenth amendment to the Constitution an additional limitation on the States, which does not apply to the Federal Government, prohibiting them from denying to any person the equal protection of the laws. Congress can at least go as far as the State legislatures in discriminating for purposes of taxation.

In Southwestern Oil Co. *v.* Texas (217 U. S., 114) the court upheld the validity of a State statute imposing an occupation tax on wholesale dealers in certain specified articles, although no tax was imposed on wholesale dealers in other articles or on retail dealers in the same articles. (See also Bells Gap R. R. Co. *v.* Pennsylvania, 134 U. S., 232, 237, and American Sugar Refining Co. *v.* Louisiana, 179 U. S., 89, referred to below; New York ex rel. Hatch *v.* Reardon, 204 U. S., 152, and Florida Central, etc., R. R. Co. *v.* Reynolds, 183 U. S., 471, 476.)

EFFECTIVENESS.

This bill, like S. 110, makes a distinction between contracts entered into on exchanges for the sale of cotton for future delivery which comply with certain conditions calculated to eliminate the evil features of future dealings in this commodity and such contracts which do not comply with those conditions and which would be likely to retain the evil features. Instead of attempting to reach these contracts indirectly, by regulating the use of the mails or the various agencies of interstate commerce, the bill proposes to regulate such transactions directly, by imposing a supertax on the latter class and a reduced tax on the former. By this means those transactions out of which arise the evils of future dealings are discouraged and those embraced in the other class, which are free from these evils, are favored. Under this plan every transaction which it is necessary to regulate in order to correct the evils is reached. If the supertax is high enough in proportion to the reduced tax it would seem that eventually all dealers in cotton futures would find it to their advantage to conform their contracts to the requirements of the bill.

It may be remarked in this connection that the supertax is not a new device in this history of our legislation. It was, as long ago as 1866, applied to the circulation of State bank notes (14 Stat., 146), in 1886 and 1902 to the sale of artificially colored oleomargarine (24 Stat., 209; 32 Stat., 193), and in 1912 to the manufacture of phosphorus matches (37 Stat., 81). The employment of

the taxing power to destroy a particular business, even though such business is injurious to the public interest, has been criticized. Yet its employment to encourage useful industries or practices and to discourage those which may be hurtful to the public is believed to be not merely defensible on principle, but wholly justifiable in the present circumstances.

In the selection of objects for taxation Congress must necessarily use discretion. It is only wise and just that those objects which are least useful or valuable to the public, or even in a sense hurtful to its interests, should bear most heavily the burden of taxation as compared with the objects which are of greater use or value to the public. The supertax proposed to be laid by the bill in question is not designed to destroy dealings in cotton futures. Even though the size of the tax be sufficiently large to cause the discontinuance of the present manner of conducting the business, such dealings themselves may, nevertheless, be carried on, in complete harmony with the requirements of the bill, in a way which will not result injuriously to the public interest, subject only to a small or nominal tax.

The propriety of using the taxing power in a manner calculated to encourage useful industries and discourage harmful traffic has been recognized by the United States Supreme Corut in its consideration of State taxing statutes.

Thus, in Bells Gap R. R. Co. *v.* Pennsylvania (134 U. S., 232, 237) the court says:

"We think that we are safe in saying that the fourteenth amendment was not intended to compel the State to adopt an iron rule of equal taxation. If that were its proper construction it would not only supersede all those constitutional provisions and laws of some of the States whose object is to secure equality of taxation, and which are usually accompanied with qualifications deemed material, but it would render nugatory those discriminations which the best interests of society require; which are necessary for the encouragement of needed and useful industries, and the discouragement of intemperance and vice; and which every State, in one form or another, deems it expedient to adopt."

In American Sugar Refining Co. *v.* Louisiana (179 U. S., 89) the court had under consideration a State statute imposing a license tax upon persons and corporations carrying on the business of refining sugar and molasses, but exempting planters and farmers grinding and refining their own sugar and molasses. With respect to this exemption the court said:

"The discrimination is obviously intended as an encouragement to agriculture, and does not deny to persons and corporations engaged in the general refining business the equal protection of the laws."

(See also Florida Central Railroad Co. *v.* Reynolds, 183 U. S., 471, 476.)

Granting that H. R. 15318 would effectively reach all transactions which it is necessary to regulate in order to eliminate the evil features of dealings in cotton futures, it only remains to consider whether the scheme of regulation prescribed by the bill is efficient.

The establishment of standards provided for under the proposed cotton standards act, H. R. 14492 and S. 4895, introduced in the House by yourself and in the Senate by Senator Gore, is a necessary precursor to the effective administration of the proposed cotton futures act. The two in no sense duplicate each other, but are complementary.

Directly in many cases, and indirectly in a greater number, the price of spot cotton is based on the quotations of the future markets. If, for any reason peculiar to exchange methods and transactions, the price of futures is depressed unduly, as is not infrequently the case, by conditions in nowise connected with the total available supply of cotton, or the demand for the actual staple, an indefensible economic and commercial condition arises, harmful to all persons owning or dealing in spot cotton from farmer to spinner.

It is now generally admitted that these conditions are due (1) to the multiplicity of prevailing standards; (2) to the so-called system of fixed differences between grades used in the settlement of contracts; (3) to the fact that very low qualities of cotton, suitable for use only by a few spinning mills, may be delivered on contract; (4) to the fact that tenders of cotton under contracts no not indicate the qualities which it is proposed to deliver; and (5) to the fact that, under the pro forma delivery practice, several weeks frequently elapse before the person obligated to receive cotton knows the grades that have been tendered. The bill would inevitably correct these conditions by the inducements which it offers to the use on exchanges of contracts which eliminate all of these evil features. If the contract rights between the parties to exchange

transactions be effectively regulated, the enforcement of such rights may safely be left to the action of the persons in interest and to the courts.

The investigations of the department show that the lack of any commonly accepted standards and reliable quotations are the fundamental causes of much of the confusion that exists. The losses accruing fall most heavily upon the farmer, as it is practically impossible for him to acquire the detailed knowledge of cotton classing and marketing that would be necessary in order to enable him to protect himself.

The requirements which future contracts must meet in order to entitle them to the reduced tax under the bill are aimed to correct the abuses now existing in future trading, and are intended to raise the value of the contract so that it will agree more closely with the price of spot cotton.

The corrective provisions require (1) the substitution of official Government standards for the various local standards now in use; (2) that true commercial differences, to be determined as provided in the act, must replace all fixed or arbitrary differences; (3) that low-grade, undesirable, and unmerchantable cottons must not be delivered on contract; (4) that the seller shall state the grade and identity of each individual bale to be tendered; and (5) that the seller shall give five days' notice of the date of delivery, which fixes the responsibility for having cotton certificated and ready for delivery.

The bill authorizes the Secretary of Agriculture to designate the spot markets to be used in arriving at the commercial differences in value, and also authorizes him to collect and publish the necessary data in connection therewith. The Secretary of the Treasury is authorized to promulgate the necessary rules therefor, and shall collect the tax laid. Penalties sufficiently heavy to deter violations are imposed, and rewards for information are provided that should render violations dangerous.

The cotton standards bill, (H. R. 14492; S. 4895) is fundamental in its nature and seeks to provide the necessary standards by which the value of cotton may be better determined, and to insure the proper application of these standards. The cotton futures bill aims to secure fair and reliable quotations on which correct ideas of value may be based. The two bills do not overlap in any respect, but both require the application of official standards to cotton tendered in settlemen of future contracts. They furnish no cause for alarm to the legitimate cotton interests of the country, including the exchanges, and their adoption should getaly simplify and improve conditions throughout the industry.

Respectfully,

D. F. HOUSTON, *Secretary*.

Mr. MORRILL. The opinion that I have referred to will answer that question as to the various forms of regulation of futures exchanges. There is no question that the contracts on the futures exchanges are not regarded as contracts made in interstate commerce; and the Secretary in expressing his opinion as to the effectiveness of the regulation preferred the laws based on the taxing powers, because it was believed that they would reach it more effectively than the others would.

The CHAIRMAN. If the bill provided that all grades should be in accordance with the standardization act of the United States, that would take care of it, and would eliminate any question as to interstate commerce?

Mr. MORRILL. Yes, sir. The contract which is exempted from tax has in its terms a provision that the grades used shall be the grades of the Federal Government, and has also in its terms certain limitations on the grades that shall be delivered. That contract being exempt from tax, the grades naturally come into use.

Mr. HUTCHINSON. There would not be any tax on the actual stuff delivered, would there?

Mr. MORRILL. Oh, no. Mr. Haugen's bill exempts from tax two forms of contracts: One, which is a contract designed for use for

hedging purposes, which permits of delivery of more than one grade, except that in Mr. Haugen's bill the grades must be of one class of wheat or corn or oats or other grain, as the case may be. That contract is described in section 5 of Mr. Haugen's bill and provides—

That no tax shall be levied under this act on any contract of sale mentioned in section 3 hereof upon which delivery of actual grain is made in accordance with its terms, or on any contract of sale mentioned in section 3 hereof when the total quantity of grain of the same kind covered by such contract and all other such contracts then unfilled or unsettled, commonly referred to as "open trades," then and previously entered into by or on behalf of the same person does not exceed two hundred thousand bushels, or, in addition thereto, does not exceed in the case of sales by or on behalf of such person the total quantity of grain of the same kind or its equivalent in products thereof actually in his possession or bona fide contracted for purchase by him in transactions not subject to this act, or in the case of purchases by or on behalf of such person the total quantity of grain of the same kind or its equivalent in products thereof bona fide contracted for sale by him in transactions not subject to this act.

And with the proviso that the limit of 200,000 bushels may, under certain circumstances set out in the bill, be lowered in the case of grains other than wheat and corn, and with the further proviso that the contract must comply with the conditions set out in section 5, which includes the use of the Government grades for the grains that may be delivered, and a requirement that the commercial differences shall govern in the settlement of a contract where other than the basic grade is delivered; and a proviso that there shall not be less than 1,000 bushels delivered of one grade, under one contract; and the further proviso that there must be five days' notice given by the seller to the buyer of the date upon which delivery will be made; and a still further proviso that the grain must be inspected by a licensed inspector subject to appeal to the Government to determine the correctness of the grade.

The CHAIRMAN. How many grades will be deliverable on a contract, say, of the same weight?

Mr. MORRILL. As provided here—take in the case of northern spring wheat, there are three subclasses of that northern spring, the dark northern spring, the northern spring, and the red spring; and the first three grades on each subclass may be delivered on that contract.

The CHAIRMAN. Nine in all?

Mr. MORRILL. Nine in all; but only northern spring wheat. Under the contract of the Chicago Board of Trade as it now exists, not only northern spring wheat but two or three other classes of wheat may be delivered on the same contract, at fixed discounts for grades lower than the contract grades and no premium for grades above the contract grade.

The discounts are fixed by the rules of the Chicago Board of Trade, and they remain fixed for indefinite periods of time, regardless of the changes of commercial value.

This bill contains a provision, as I have read, which is designed to permit not only contracts upon which actual delivery is made, which comply with section 5, to be exempt from tax, but also contracts which serve the hedging purpose, that is to say, contracts which offset actual grain transactions one way or the other according to the man's business, and in addition a margin of 200,000 bushels over and above

those hedging and actual delivery contracts, which allows that much play for speculation or as a margin of safety for the man who is hedging.

It is not free from doubt, of course, whether 200,000 bushels is the right limit to put. The reason that it is not free from doubt is because it is not certain to what extent speculation is necessary in order to preserve the hedging function. It is quite doubtful whether the hedging function could continue if both parties to the transaction have to be hedgers, for example, if the man who is buying for hedging purposes comes into the market, in order to accomplish his purpose there must be some one there ready to sell. It is questionable whether at all times there will be someone there ready to sell who is there for the purpose of delivering grain or who is there for the purpose of hedging a corresponding transaction.

It has been contended that it might be necessary to have a larger margin than 200,000 bushels. We in the department are not prepared to say that 200,000 bushels is the right limit, but we think the theory of that limit is correct; that is to say, there should be some limit.

Mr. HUTCHINSON. In the case of the Pillsbury or Continental Mills, who use that much wheat a day, would it limit them in that amount?

Mr. MORRILL. They are permitted to hedge all actual grain without limit. There is no limit on the hedging of actual grain; and they can go to 200,000 bushels beyond the hedging of their actual grain. I judge from your questions that you are perfectly familiar with the difference between a hedge and a cash grain transaction, and it is not necessary for me to explain it. In other words, the Pillsburg Flour Mills in using the futures market for hedging purposes do not contemplate actually receiving or delivering grain.

Mr. HUTCHINSON. Do you define the hedging transaction as gambling?

Mr. MORRILL. I do not define the hedging transaction as gambling. I might say that under conditions that have existed in the futures market, perhaps it would be proper to say that the man who was dealing in hedges was gambling, and it is because of those conditions that it seems to be necessary to impose regulation so as to eliminate any abuses or any practices that prevent a futures contract from performing its proper function.

The CHAIRMAN. I might state that 200,000 bushels was the limit made during the war.

Mr. MORRILL. Yes. During the war at the suggestion of the Food Administration, as you heard Mr. Hoover state, the Chicago Board of Trade adopted that limit of 200,000 on speculative corn trading, and if I understood Mr. Hoover correctly he was of the opinion that it worked all right.

The point which seems to me important in connection with this future trading proposition, and the reason for a limit of that kind, is to eliminate the deliberate manipulator from the market, the man who is in there solely for the purpose of manipulation. If you put a limit of, say, 200,000 or even 500,000, or possibly 1,000,000 bushels, it would eliminate him from the market. I do not know what the limit should be, but that is the idea.

There is a further point: You will notice that that limit is on the number of bushels of open trades; it is not a limit on the number of transactions or on the number of bushels that any man may sell or that any man may buy, but it is a limit on the open trades he may have at any one time, because it is the amount of open trades that he may have that gives him power to control the market.

He can have—I want to repeat that again—he can have open at any one time just as much as he needs of straight-out hedge, but when it comes to a transaction which is not a straight-out hedge he can not have open at one time more than 200,000 bushels under this rule, and that is the same rule that was enforced by the Food Administration during the war as to corn.

Mr. HUTCHINSON. In other words, if a mill buys a million bushels of cash wheat they can go on the market and sell a million bushels?

Mr. MORRILL. Yes, sir; that is the point.

I might say also that in that section 5 there is a provision which I have discussed with the chairman of this committee by which might be possible, under certain conditions specified, for the Secretary of Agriculture to raise or lower the limits of grades that may be delivered on a contract. The limit is now No. 3, as specified here, in the case of wheat. There might arise a condition either by reason of a development in the milling industry or otherwise where No. 4 would be equally acceptable on a contract so far as a buyer who expected to use the grain is concerned. And if that No. 4 is suitable for the same purpose as No. 3 and is readily marketable so there can not be any question as to its market value, this permits the addition of No. 4. But on the other hand, if No. 3 should become a drag on the market and an undesirable grade, No. 3 might be eliminated.

Mr. HUTCHINSON. Right there I think there is a great weakness. For instance, a man in the East has a certain grade of No. 1 winter wheat or No. 2 wheat at his home market and he goes and buys No. 1 Manitoba wheat, or No. 1 hard wheat, and mixes with it. It is unfair to make that man take No. 4 wheat or something he does not want at all.

Mr. MORRILL. Right there is the point I made a while ago, that there is a distinct difference between the hedging function and the cash grain function of the market. A contract which serves the cash grain market is not necessarily suitable for hedging purposes and vice versa; and I mentioned a while ago two forms of contract which are exempted by this bill.

The second form is contained in section 10, which exempts absolutely a contract which calls for a specific grade, and upon which delivery is actually made. So that if you wanted to buy No. 2 and did not want No. 3 or No. 4, that contract is there for you to do your buying with.

Mr. HUTCHINSON. That is under the new bill?

Mr. MORRILL. That is under the new bill; yes, sir. And in order that every precaution might be taken that this bill would not have an improper application, it expressly says that "this act shall not be construed to impose a tax on any sale of cash grain." In other words, the bill deals entirely with future transactions and future exchanges,

and if transactions are made in the form prescribed there, and within the limits prescribed there, they are free from tax.

The whole question is whether those contracts are fair contracts and whether they perform the function. If those contracts are not fair contracts or do not perform the function, then it becomes necessary to consider the question whether they should be changed or whether future trading should be abolished.

It seems to me important that there ought to be a limitation on the grades that may be delivered on a contract. I understand that in Minneapolis they trade only in one class of wheat, but at Chicago the contract embraces a number of classes of wheat. It seems to me that while that may be necessary, it is doubtful whether there should be more than one class of wheat delivered on a contract.

Of course, this question arises in that connection, that the man who is handling hard red winter wheat, for example, may prefer to use a hard red winter contract as a hedge. By requiring that each class of wheat shall be dealt in separately by different contracts, you divide up the trading on the exchange. Instead of having one pit for wheat, it is necessary to provide either for several pits or for the use of several forms of contract in the same pit; and therefore it splits up the market of buyers and sellers according to those who are interested in each class of wheat.

The question which naturally arises is whether that would disturb the hedging function by breaking up the continuity and the breadth of the market.

The Federal Trade Commission comments on that matter, of the necessity for a broad market.

The CHAIRMAN. Limiting the number of grades deliverable on any one contract does not forbid the grain being dealt in.

Mr. MORRILL. No, sir; they may deal in any class or in any grade they want to under this bill.

The CHAIRMAN. But if you make a contract for delivery of a certain class of spring wheat, you must deliver that particular class.

Mr. MORRILL. The Federal Trade Commission says:

> Volume of trading and the implied continuous trading activity is sometimes mentioned as a prerequisite of future trading. Large volume is obviously not such a prerequisite, but is essential to the highest efficiency of a futures market. Because of this need, and because of the possibility of concentrating future trading, regardless of the location of the trader, many active grain exchanges are not able to maintain futures markets.

In view of the fact that a Minneapolis man does trade in one class of wheat, I should suppose that this other man could do likewise. But I merely suggest that for the consideration of the committee.

Mr. HUTCHINSON. If you telegraphed to Chicago to buy 10,000 bushels of wheat, but do not have some specific time to deliver, you do not know what you are getting.

Mr. MORRILL. Of course, if you are contemplating actual delivery, you have a separate and distinct question from the one of hedging; and it is a little difficult to absolutely reconcile those two propositions.

Mr. HUTCHINSON. Each exchange in different States have their own rules and regulations?

Md. MORRILL. Yes, sir; they are not alike.

Mr. HUTCHINSON. That is regulated by law?

Mr. MORRILL. The rulings and contracts of exchanges are not alike, they are not exactly comparable, and that is one of the things this bill would accomplish—put them all exactly on a comparable basis. If you have a quotation for a hedging contract on northern spring wheat at Minneapolis, you would have identically the same contract in Chicago as the basis of Chicago quotations, and you could compare them. You can not do that exactly now. That is one of the things you can do under the cotton futures act. You can compare quotations on cotton in New York with quotations in New Orleans, because they have exactly the same form of contract and should not get out of line with each other.

The CHAIRMAN. Have there been other bills referred to the department?

Mr. MORRILL. I know of no other bills having been referred to the department other than yours and Mr. Gronna's.

The CHAIRMAN. If the committee should decide to refer these bills to the department, would it be imposing on the department to ask them for an opinion on?

Mr. MORRILL. If the committee desires, the department is at your service.

The CHAIRMAN. How long would it take to go over these bills?

Mr. MORRILL. I think with the assistance of the solicitor's office, it probably would not take very long now, because we have about got our minds straightened out to where we at least know what fundamentals we will approve.

The CHAIRMAN. That is, of course, a matter for each member to determine for himself if it is his own bill, or for the committee to determine whether all will be referred; and I shall lay that matter before the committee for consideration.

Mr. MORRILL. I started to mention that allowance with reference to increasing or decreasing the number of grades. The solicitor's office raises the question as to whether the phraseology used is exactly consistent with constitutional limitations, but I think that can be straightened out. With the substance of the bill I think there will be no difficulty.

I do not know whether I have covered the different questions that I should have covered.

One suggestion I have to make and that is this: Many people overlook the importance of the fixed differences in their effect upon the price of a contract. Take, for example, a contract which fixes No. 2 as a contract grade. Suppose that the difference fixed by the exchange is, we will say, 5 cents off for No. 3—I am using an arbitrary illustration; suppose, as a matter of fact, that in the cash grain market No. 3 actually commands a discount of 8 cents off. What happens? The buyer is going to discount the price of the contract by 3 cents, in order to come out even on the possibility of delivery of No. 3 grade at an actual commercial difference of 8 cents off, because he is getting something that is worth 3 cents less than the exchange fixes. What is the result? Here you have a general quotation which to the general public is 3 cents less than the cash grain price. They can not see why that is. There is something in the rule not generally known to the public. That was the condition in the cotton trade

before the cotton futures act was passed, and unaccountably the future price would be way below the spot price, and it was discovered that one of the causes of that was these fixed differences.

Mr. HUTCHINSON. My judgment on future contracts is that there ought to be one grade on all exchanges. There is quite a difference between that purely——

Mr. MORRILL (interposing). By "one grade," what do you mean?

Mr. HUTCHINSON. I mean one grade of No. 1 or No. 3 on each future contract.

Mr. MORRILL. I might point out to you this, Mr. Hutchinson, that looking at the contract from a hedging standpoint—and that is what I am looking at it from—and not from the standpoint of a man who wants to buy for actual use, but as a hedging proposition entirely—the man who is buying grain out in the country and who is selling futures as a hedge against his cash grain may not have exactly that No. 2 grade; it may vary from 1 to 3, or he may have all three grades. Conditions may arise which are an essential part of the hedge, which will result in his delivering his grain on the future contract rather than closing out his hedge and selling his grain on the cash market.

If you limit the future contract to one grade, then he has hedged only as to the one grade that he has, and the other two grades have to be disposed of somewhere, so he had not hedged them.

I can give a better illustration in the cotton business, because it is clearer to my mind: In the Southwest it has become the practice on the part of banks to refuse to grant loans to cotton buyers unless they can show either an actual sale of that cotton on the spot market or a sale of futures; that is to say, a hedge. Further, if they show that hedge, they must show that the cotton which they have is of a grade deliverable on that contract, because otherwise it is worth nothing to the bank.

Therefore, the more you restrict the number of grades that may be delivered on that contract, the more restricted the opportunity to loan money on it; and while it might be answered that they might trade in as many grades as they are using separate contracts, the minute you commence to increase the number of contracts you narrow the market as to each particular form of contract, and thus weaken the hedging function.

It is a matter of degree. I do not know how far you could go in providing increased numbers of contracts, for somewhere it would cease to perform the hedging function, because there would not be a big enough market to accommodate them all.

The CHAIRMAN. Another thing, if any grade other than the contract grade is delivered and delivered at actual commercial value—market value—if the miller refuses anything he can not use, he can turn around and sell it.

Mr. MORRILL. That is the purpose of putting it on a commercial basis.

The CHAIRMAN. But if they are fixed differences he must either take it at the price offered or sell it for what he can get, and it has been pointed out there is a 3-cent difference between No. 3 and No. 2. Suppose, Mr. Hutchinson should buy wheat for his mill, and he could use No. 2 and could not use No. 3, if No. 3 was tendered to him he would have to accept of it at its commercial value, but if com-

mercial difference were used he could turn around and sell for exactly what he paid for it.

Mr. MORRILL. That is the point of distinction. A hedging contract, while it legally contemplates delivery, as a matter of fact for hedging purposes there is no delivery intended. It may come about that delivery will be made because of the fact that the man has not been able to get his product or dispose of it in the cash grain market, and that is one of the things he has hedged against, is that possibility that he will not be able to make disposition of the actual commodity, but if he has to receive it on his contract, just as the Chairman pointed out, if he gets one grade which he does not need he can turn around and dispose of it.

The CHAIRMAN. You are familiar with the cotton futures act. Does that provide for commercial differences?

Mr. MORRILL. The only question that arises in the cotton trade arises in this way, so far as commercial difference is concerned: For example, during the war there was almost a very radical change in the grades of cotton that were used commercially, that is to say, prior to the war a much wider range of grades could be sold and readily marketed. Germany, for example, was a big outlet for certain low grades, and some of our own mills offered a market for certain low grades. But during the war, by reason of the requirements of the War Department, and by reason of labor conditions and economic conditions generally, the lower grades became less usable; the higher grades were more in demand.

As the tendency went upward in the use of grades, the lower grades became a drug on the market, and, consequently, it was hard to get actual quotations that represented real values as to those lower grades, and sometimes they got out of line, and the consequence was that for some period of time the future contract was depressed in value. Congress corrected that by eliminating some of those lower grades, reducing the number of grades deliverable, and the contract went back to its normal parity with spot cotton.

Recently, during the past summer, it again departed from its normal parity. But that proved to be purely a temporary condition, largely because of uncertainties as to the market and particularly because at the time this occurred it was practically an interval between the going out of the old crop and the coming in of the new crop. When the new crop appeared on the market, the future contract returned to normal parity with spot cotton, and they have been that way since the first of October.

The CHAIRMAN. You have nothing further to offer?

Mr. MORRILL. I have nothing further to offer unless you want to ask me some questions.

The CHAIRMAN. The committee is very grateful to you.

Mr. MORRILL. It has been suggested to me that you may wish information on the Arizona Egyptian contract. I do not know whether you do or not. If you do, I would like to answer your questions.

The CHAIRMAN. The question would be, how should it be handled, by an amendment to the present bill?

Mr. MORRILL. The bill which you have before you was framed by way of amendment to the cotton futures act, to provide another form of contract for that American Egyptian cotton which has not here-

tofore been provided for in the hedging contract that is now provided in the cotton futures act. The bill that you have follows absolutely the form of the present contract in the cotton futures act, except in the particulars that are necessary for the purpose of trading in American Egyptian cotton.

The CHAIRMAN. It is in a class by itself.

Mr. MORRILL. It is entirely a separate class of cotton, it is a class all by itself. The contract is desired by people out in the southwest, whose production of American Egyptian cotton is increasing at a very rapid rate, and who feel that they should have the benefit of the future contract on cotton exchanges that they do not now have.

The new contract that is provided for by Mr. Osborne's bill is framed, as I have said, right along the lines of the first section 5 contract, using commercial differences and limiting grades, and so on.

There are two features of it to which I wish to direct your attention. One is that it limits the number of grades that may be delivered on any one contract to three. That is not provided for in the American upland short staple contract. But as a matter of fact, those people in the southwest say that they intend to deal in the 25-bale contract instead of a hundred bale contract which is used in the east: and as there are only nine grades all told of American Egyptian cotton, three contracts would enable them to deliver all nine grades, that is, 75 bales; so that no hardship is imposed upon them by limiting them to three grades and on the other hand, the individual contract for 25 bales is more attractive to the buyer when it is limited to three grades.

There is another question: The American Egyptian cotton is of a character probably equal to the best cotton that is grown anywhere in the world, taking all qualities into consideration. It is a long staple cotton used for a very high type of fabrics such as balloon and airplane fabrics, and so on. This amendment provides that nothing less than an inch and seven-sixteenths shall be deliverable on contracts. As a matter of fact, since that bill was drawn and recently we have been making some inquiry into the merits of that limitation, and our information is that the limitation should really be an inch and nine sixteenths, and on that I would like to read to you three telegrams which I have here on that question.

We asked the Pacific Cotton Exchange, which is advocating this bill, to express their opinion. We also asked a very large grower of cotton down in the Imperial Valley to express his opinion. In addition, we asked all of our cotton men who are directly familiar with the production of this cotton for their opinions.

Mr. E. H. Hudson, of Tempe, Ariz., is the cotton grower to whom I refer, and he wired as follows:

TEMPE, ARIZ., *January 25, 1921.*

Mr. LIVINGSTON,
Chief of Bureau of Markets, Washington.

Your telegram received. In our opinion one and nine-sixteenths satisfactory to grower; believe about 95 per cent of crop would average this staple or better. We think should penalize short staple or Pima variety.

E. H. HUDSON.

On the other hand, Mr. M. G. Scott, of Los Angeles, Calif., who is an advocate of this Osborne bill, and who is engaged in the spot

cotton trade out there, handling this kind of cotton, says this [reading]:

LOS ANGELES, CALIF., *January 22, 1921.*

LIVINGSTON,
Chief Bureau Markets, Washington, D. C.:

Yours; our opinion is that staple of inch and seven-sixteenths will meet requirements of this territory better than inch and nine-sixteenths, due to the fact that outside of Salt River Valley, which specializes mostly in Pima cotton, there is considerable American-Egyptian cotton grown in Yuma and various California valleys, and think it would be a discrimination against these other valleys if staple of greater length than inch and seven-sixteenths asked, as from one year to another staple lengths vary and premium of spots over futures will soon regulate itself in trading, and by letting staple length stand as bill now reads would be more liberal for all growers and sellers.

M. G. SCOTT.

The Pacific Cotton Exchange says this [reading]:

LOS ANGELES, CALIF., *January 22, 1921.*

LIVINGSTON,
Chief Bureau Markets, Washington:

Yours; thanks. As different sections planting American-Egyptian cotton vary in length, staple from year to year seldom reaching an average inch and nine-sixteenths, think inch and seven-sixteenths best as basis average, as sellers can ask premium for extra length, same as short staple contract adds for extra lengths. While anxious to meet views Government officials, think bill as read covers all requirements and trust meets your views after unbiased consideration.

DIRECTOR PACIFIC COTTON EXCHANGE.

As a matter of fact, while I dislike to have the department in the attitude of apparently differing with people who are on the ground and interested in this matter, it is our belief that an inch and nine-sixteenths fairly protects the grower and is a fair limit, and that if the bill were changed in that respect there would be no harm done to the grower and the contract would be a better contract.

The CHAIRMAN. The present bill is one and seven-sixteenths and you suggest one and nine-sixteenths.

Mr. MORRILL. The present bill says one and seven-sixteenths and we suggest changing it to one and nine-sixteenths. I would suggest, so that there will not be any misunderstanding, that those people came to us in the beginning to find out whether there was a contract on which they could trade, and we told them there was none provided by the cotton futures act. Knowing we would have to administer the law if it were passed, they asked us to go over with them a bill which they would prepare to amend the cotton futures act so as to be sure it was perfectly consistent and legal with reference to the provisions of the cotton futures act, and we called in an attorney from the Treasury Department and a representative of our solicitor's office, and one of our cotton men, and we went over it together; and that question of whether that staple should be one and seven-sixteenths was brought up. At that time we were not as well informed as we are now, and we accepted their statement about it. They said they thought one and seven-sixteenths was right, and you will notice they still maintain that opinion. But we believe now, upon subsequent investigation, that it ought to be one and nine-sixteenths. I simply want to be sure that there will be no feeling that we have done something we have not made everybody fully acquainted with.

I think this, that it must be kept in mind fundamentally that the contract should be a good contract, a contract that the buyer will not run away from even as a hedging proposition, a contract upon which he will not expect to have delivered to him some kind of cotton that he can not readily dispose of; and therefore our suggestion is that it ought to be one and nine-sixteenths, so there will not be any question about the marketability of any cotton he receives.

The CHAIRMAN. The committee will now stand adjourned.

(Thereupon, at 6.05 o'clock p. m. the committee adjourned.)

(There is printed as follows two letters received from the Secretary of Agriculture having reference to bills covered in these hearings.)

DEPARTMENT OF AGRICULTURE,
Washington, February, 18, 1921.

Hon. G. N. HAUGEN,
Chairman Committee on Agriculture, House of Representatives.

DEAR MR. HAUGEN: I am in receipt of your request for my opinion as to bill H. R. 15373, entitled "A bill to amend the United States cotton futures act by inserting therein a new section for American Egyptian cotton only, to be known as section 5A."

I am informed by the Bureau of Markets that several months ago representatives of the Pacific Cotton Exchange came to Washington and stated that it was their desire to have future trading in American Egyptian cotton instituted on the Pacific Cotton Exchange, which had already been organized and was in operation for spot-cotton transactions. They stated, in substance, that it was necessary for the purpose of financing the sale by growers and shippers of American Egyptian cotton that they have available to them a future contract which would serve as a hedge for their spot-cotton transactions. They were informed that the cotton futures act as now in force did not provide a contract which was suitable for future trading in American Egyptian cotton, and that, if such a contract was desired, it could only be put into use, without being subject to the tax, after securing an amendment to the United States cotton futures act.

At the request of these representatives of the Pacific Cotton Exchange, a proposed bill to accomplish the purpose was considered by an attorney for the Bureau of Internal Revenue of the Treasury Department, an atttorney of this department, and representatives of the Bureau of Markets, the purpose being to have the new contract conform as closely as possible to the hedging contract already provided by the cotton futures act for American upland cotton. Bearing in mind, however, the fact that, in the opinion of this department, it was essential that the hedging contract for American Egyptian cotton should be so drawn as to be likely to result in future quotations which would normally be on a parity with spot cotton quotations, the bill was, of course, framed with particular reference to the grading standards for and character of American Egyptian cotton.

It is my understanding that Mr. Morrill, of the Bureau of Markets, in his testimony before your committee recently, explained the more important questions involved. Among other things, at the time this bill was originally framed there was a question in the minds of representatives of the Bureau of Markets as to the exact minimum length of staple of American Egyptian cotton that should be deliverable. This quesion was raised with the representatives of the Pacific Cotton Exchange, who took the view that it should be as stated in bill H. R. 15373. Recently, representatives of this department who have given special attention to the production of American Egyptian cotton have reached the conclusion that the minimum length of staple should be not less than 1 9/16 inch for the purposes of this bill, and that this would do no injustice to the producers, but would enhance the value of the contract and make it less likely to be depressed in price in comparison with the market values of spot cotton. The matter was again taken up with representatives of the Pacific Cotton Exchange and a grower of cotton in Arizona, and their telegrams have been incorporated in your record of your hearings on this subject.

The question, of course, is one for your committee to decide when it acts upon the bill. If the proponents of this bill have satisfied your committee as to

the need for a hedging contract for American Egyptian cotton, this department sees no objection to the enactment of this amendment, except insofar as the question is involved as to the minimum length of staple. The amendment is in proper form for incorporation in the United States cotton futures act, and is consistent with the general purposes of that act.

Very truly, yours,

E. T. MEREDITH, *Secretary.*

DEPARTMENT OF AGRICULTURE,
Washington, February 18, 1921.

Hon. G. N. HAUGEN,
Chairman Committee on Agriculture,
House of Representatives.

DEAR MR. HAUGEN: I am in receipt of your request for my opinion on bill H. R. 15688, entitled "A bill to tax the privilege of dealing on exchanges, boards of trade, and similar places in contracts of sale of grain for future delivery, and for other purposes."

The bill is very similar in its general frame work to the United States cotton futures act and is based upon the same general principles. In this connection, I refer you to the hearings of the House Committee on Agriculture which were held in April, 1914, on various bills relating to the regulation of cotton exchanges. In the printed record of these hearings you will find a letter dated April 23, 1914, from the Secretary of Agriculture, in regard to three bills then pending which resulted in the passage of the United States cotton futures act. In this letter unsatisfactory conditions that had previously existed on cotton future exchanges were set forth and the proposed means of correction were discussed. Permanent legislation having a similar purpose has not, however, been applied to the grain future exchanges by the Federal Government.

The bill H. R. 15688 recognizes the fact that a future contract which will serve for hedging purposes requires a special understanding and treatment quite different from other contracts of the grain industry, and provision is made for it in section 5. In order, however, that transactions which will serve proper purposes of the cash grain trade other than that of hedging may not be prevented, the bill also exempts from tax any contract conforming to section 10 which calls for the actual delivery of a specific grade, type, sample, or description of grain, and futhermore expressly gives assurance that the act shall not be construed to impose a tax on any sale of cash grain.

I note that contracts made in conformity with section 5 which offset cash grain transactions in the manner described in section 5, which are apparently hedging transactions, and, in addition, contracts made in conformity with section 5 upon which actual deliveries are made in accordance with their terms, are exempt from tax. In addition to these exempted transactions, open trades in contracts conforming to section 5, up to a limit of 200,000 bushels, are exempt from tax. This, I am informed, is the limit which was placed upon speculative transactions in corn on the Chicago Board of Trade at the request of the Food Administration during the war. Presumably it is designed to allow for such margin of trading as may be necessary to provide the board and continuous market required for the maintenance of the hedging function of the exchanges, at the same time depriving speculators of the power to manipulate the market to the detriment of the performance of its proper functions. Whether the exact limit specified will accomplish both of these purposes I can not judge. I am, however, in accord with what appear to be its purposes.

In addition to the features of section 5 above mentioned, I note the provisions for the use of standarized grades and for the privilege of appeal by dissatisfied parties in order to secure accurate determinations of grade; for settlements according to the commercial differences in value when grades other than the contract grade are delivered; that not less than one thousand bushels of any one grade shall be tendered on a contract; for five business days' notice in writing in advance of the date fixed for delivery; and other provisions designed to protect the interests of the respective parties. In the opinion of the experts of the department, provisions of this general character are highly desirable as a means of insuring the proper performance of the hedging and market quotation functions of the future exchanges.

Aside from the points that I have mentioned, it seems to me that one of the highest importance is that requiring the rendition of reports of transactions in grain, and publicity of the facts. Because of the importance of the economic functions of future exchanges, the light of day should be turned on their transactions, and this should be one of the most valuable features of the bill.

Not knowing the attitude of your committee toward the general purposes of the bill, I have not gone into the questions of possible changes in phraseology or detail which may be necessary or desirable for legal or practical reasons, and, therefore, if your committee decides to give favorable consideration to this bill, I shall be glad to have representatives of this department assist you in any way that you may desire in arriving at its final form.

Very truly, yours,

E. T. MEREDITH, *Secretary.*

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